

## 2. Meeting of the ERS Board of Trustees



December 11, 2018



## Public Agenda Item # 1.1

*Call Meeting of the ERS Board of Trustees to Order*



December 11, 2018

## Public Agenda Item # 2.1

*Review and Approval of the Minutes to the August 29, 2018  
Meeting of the Board of Trustees (**Action**)*



December 11, 2018

# Questions? Action Item



## Public Agenda Item # 3.1

*Executive Session – In accordance with section 551.074, Texas Government Code, the ERS Board of Trustees will meet in executive session to evaluate the duties, performance and compensation of the Internal Auditor of the Employees Retirement System of Texas. Thereafter, the Board may consider appropriate action in open session.*



December 11, 2018

## Public Agenda Item #4.1

### *Review and Discussion of Sunset Implementation and Evaluation Project Updates*



December 11, 2018

Keith Yawn, Director of Strategic Initiatives

# Summary of Agency Sunset Progress

*18 of 19 Requirements Fully or Substantially Completed*



## Management Actions (10)



8 Complete



2 Ongoing

## Statutory Changes (9)



8 Complete



1 In Progress

# Grievance and Appeals Program



## **Recommendation 3.1: Develop and implement a process that allows members to participate directly in the insurance appeal process.**

- Statutory Requirement – Partially implemented
- New process policy approved October 2018
- Process anticipated to be implemented before the end of 2018
- Process allows members to record audio statements in support of their appeal to be used in appeal determination reviews



# Grievance and Appeals Program



## Recommendation 3.2: Establish a precedent manual for the insurance appeal process.

- Statutory Requirement – Fully implemented
- Manual published on ERS website in October 2018
- Manual content includes information on various HealthSelect plan appeal processes covering up to 89% of all second-level appeals reviewed by ERS

# Grievance and Appeals Program



## **Recommendation 3.4: Ensure balanced representation of division staff on the Grievance Review Committee (GRC).**

- Management Action Directive – Fully implemented
- GRC members review certain second level appeals
- Committee membership expanded and re-balanced in October 2016
  - Group Benefits (3 members); Customer Benefits (3); Office of the General Counsel (1); Executive Office (1)

## **Recommendation 3.6: Comprehensively track and analyze benefit application decision and appeals data.**

- Management Action Directive – Ongoing Implementation
- Applies to Group Benefits and Customer Benefits operations
- Examples:
  - Expanded collection and division reporting of appeals data
  - New executive level reporting of benefit application trends
  - Working to expand enhanced data collection to vendor programs (ongoing)

## Recommendation 5.1: Implement alternative dispute resolution and negotiated rulemaking policies.

- Statutory Requirement – Fully implemented
- ERS adopted internal operational policies defining applicability of each policy
- Board adopted related Administrative Rule, Chapter 67 in August 2018 to appropriately acknowledge alternative dispute resolution policy

# State Auditor's Office Evaluation



## **Scope: Evaluate ERS implementation of management directives.**

- Conducted from August through October 2018
- Report to be published prior to 2019 Legislative session
- ERS reported completion of 7 requirements with 2 in progress

# Sunset Commission Evaluation



## **Scope: Evaluate ERS implementation of statutory requirements.**

- Evaluation began in October 2018 (ongoing)
- Report to be presented to Sunset Commission during a public meeting in January 2019
- ERS reported completion of 7 requirements with 2 in progress

# Questions



## Public Agenda Item # 5.1

### *Report of the Group Benefits Advisory Committee Activities*



December 11, 2018

Bernie Hajovsky, Director of Enterprise Planning  
Dr. Janet Bezner, Chair, Group Benefits Advisory Committee



# GBAC Annual Report

## *Committee Background*



- Committee members appointed by ERS Board of Trustees December 2017 – March 2018
- Committee provides stakeholder and expert input in the planning and development of Group Benefits Program



# GBAC Annual Report

## *Meetings Recap*



- **March 26 meeting**

- Overview of GBP offerings, eligibility, and costs
- Privacy training
- Committee governance and operations
- Proposed topics for future discussion
  - high-level comparison of health plans offered by other states and private sector firms
  - a general review of benefit design and incentives
  - evaluating participant perceptions of GBP programs

# GBAC Annual Report

## *Meetings Recap (cont'd)*



- **October 3 meeting**

- Private sector and public sector health plan comparison
- GBP participant satisfaction
- GBP cost management practices
- Health and wellness offerings
- Proposed topics for future discussion
  - the opioid epidemic and its impact to the GBP
  - a financial review of diabetes prevention programs
  - how incentives impact participation in wellness programs

# GBAC Annual Report

*Looking Ahead to 2019*



- Committee to provide input on:
  - Content for membership benefits survey
  - GBP-related policy changes
  - Possible wellness incentives

# Questions?



## Public Agenda Item #6.1

Health Insurance Financial Status Update for Fiscal Year 2018 and  
Outlook for Fiscal Year 2019



December 11, 2018

Diana Kongevick, Director of Group Benefits

Blaise Duran, ASA, MAAA, Actuarial and Reporting Services, Group Benefits

Phil Dial, FSA, Rudd and Wisdom Inc.

# HealthSelect Review

## Trends



- The self-funded HealthSelect programs saw favorable experience in FY18:
- As expected, medical trend was less as a result of the new contract.
- Combined medical and pharmacy trend is -9.9%.

	FY17	FY18	FY19 Projected
Medical Trend	5.2%	-14.9%	13.9%
Pharmacy Trend	-2.2%	6.6%	12.0%
<b>Combined Medical and Pharmacy Trend</b>	<b>3.4%</b>	<b>-9.9%</b>	<b>13.4%</b>

# HealthSelect Review

## *FY19 Projections*



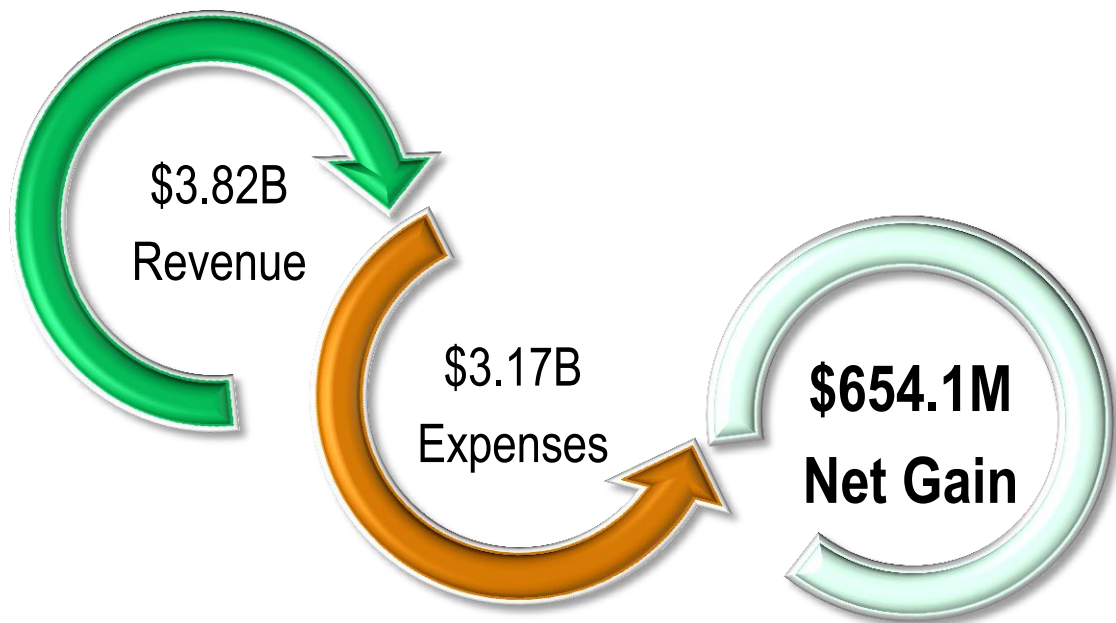
- As a result of the transition to a new third-party administrator (TPA) , utilization was low in early FY18. Medical trend is expected to be higher in FY19 as utilization returns to normal levels.
- Pharmacy trend is projected to return to a normal trend of 12%.
- HealthSelect contributions increased by .47%. The average for all GBP health plans was .71%.
- Due to the significant reduction in FY18 costs, the contingency fund is expected to grow in FY19 despite the high trend.



# Health Plan Review



## Texas Employees Group Benefits Program - Health Plan Performance



GBP finished the  
Plan Year with  
**\$1.45 billion**  
in the  
Contingency Fund

Includes all Texas Employees Group Benefits Program (GBP) health plans

*Agenda item 6.1 – Board of Trustees Meeting, December 11, 2008*

# Fiscal Year Projections

## Health Plan Performance



	FY18 Projected	FY19 Projected	FY20 Projected	FY21 Projected	FY22 Projected	FY23 Projected	FY24 Projected	FY25 Projected
Revenue	3,819.9	3,984.3	4123.3	4,268.5	4,386.0	4,503.6	4,637.5	4,778.8
Expenditures	3,165.8	3,606.8	3,969.5	4,361.4	4,788.6	5,262.8	5,791.7	6,373.3
<b>Net Gain (Loss)</b>	<b>654.1</b>	<b>377.5</b>	<b>153.8</b>	<b>(92.9)</b>	<b>(402.6)</b>	<b>(759.2)</b>	<b>(1,154.2)</b>	<b>(1,594.5)</b>
<b>Contingency Fund Balance</b>	<b>1,451.8</b>	<b>1,829.3</b>	<b>1,983.1</b>	<b>1,890.2</b>	<b>1,487.6</b>	<b>728.4</b>	<b>(425.8)</b>	<b>(2,020.3)</b>

Includes all GBP health plans

# Rider Update

## *85<sup>th</sup> Legislative Session Riders*



- **Rider 15** – Required ERS to reduce out-of-network Free Standing Emergency Room (FSER) costs.
- **Rider 18** – Required ERS to work with state Health Related Institutions (HRIs) to achieve savings.
- **Article IX, Section 10.06** – Required the Health and Human Services Commission (HHSC) to coordinate with ERS and other state agencies to develop a plan for an integrated health care information system.

# Rider Update

## 85<sup>th</sup> Legislative Session Riders (continued)



- **Article IX, Section 10.07** – Required ERS to participate in an ongoing collaboration with certain other state agencies on quality-based initiatives.
- **Riders 14 and 16** – Required ERS to analyze Consumer Directed HealthSelect and to develop alternative, cost-neutral plan design options for legislative consideration.
- **Rider 17** – Allowed ERS to operate or contract with an onsite or near-site clinic.

# Questions?



## Public Agenda Item #6.2

Group Health Benefits Update and Compliance Information



December 11, 2018

Diana Kongevick, Director of Group Benefits  
Lauren Russell, CTCM, Health Plan Operations, Group Benefits

# Texas Employees Group Benefits Program

## *Changing the Script*



- A unique, collaborative health plan approach to the opioid-epidemic from the perspective of one health plan.
- Intended to drive a unified benefit plan solution among HealthSelect vendors, administrators and health plan experts.
- Demonstrates support of participants, their loved ones and our communities.
- A comprehensive health plan strategy to:
  - Help prevent dependency before it starts
  - Stop progression to opioid misuse, abuse and addiction
  - Treat and support chronic utilizers on the path to recovery
  - Promote savings and quality of care

# Changing the Script

## *ERS Took Quick Action*



- ERS created a project group that engages regularly to share ideas, actions, data and solutions, including HealthSelect medical, pharmacy and behavioral health experts.
- Overprescribing of opioids remains a concern and HealthSelect adopted CDC guidelines quickly through the Pharmacy Benefits Manager (PBM) opioid risk management program. Member education is a critical piece of this strategy.
- The plan design was adjusted to allow open access to all Medication Assisted Therapies (MATs) without prior authorization or other obstacles. The different options may be covered at different copay tiers.
- Behavioral health access expanded September 1, 2018 with ability to schedule appointments via virtual mental health visits (Doctor on Demand and MD Live).



# Changing the Script

Preliminary Results January – October 2018



	Short Acting Opioids (SAO)	Long Acting Opioids (LAO)
Total Utilizers	-28.8%	-59.8%
Treatment Experienced (TX EXP)*	-42.2%	-56.3%
New to Therapy (NTT)**	-36.6%	-92.5%

\* TX EXP (members *with* opioid Rxs > 15 days supply within most recent 120 day claim history)

\*\* NTT (members *without* opioid Rxs > 15 days supply within most recent 120 day claim history)

# Changing the Script

*Preliminary Results January – October 2018*



SAO Claims Compliant with CDC Opioid Prescribing Guidelines	2017	2018
Non-compliant	25.3%	3.5%
Compliant	74.7%	96.5%

# Group Health Benefits Programs

## Overview



### Health Benefits

#### HealthSelect<sup>SM</sup>

- HealthSelect<sup>SM</sup> of Texas
- Consumer Directed HealthSelect<sup>SM</sup>
- HealthSelect<sup>SM</sup> Prescription Drug Program

#### Health Maintenance Organizations (HMOs)

- Baylor, Scott & White Health Plan
- Community First Health Plans
- KelseyCare powered by Community Health Choice



### Medicare–eligible Retiree Health Benefits

#### Medicare-Eligible Retiree Plans

- HealthSelect<sup>SM</sup> Medicare Advantage Plan, a preferred provider organization (MA PPO)
- KelseyCare Advantage Medicare health maintenance organization (MA HMO)
- HealthSelect<sup>SM</sup> Secondary plan
- HealthSelect<sup>SM</sup> MedicareRx - Employer Group Waiver Plan (EGWP) + Wrap

#### Health Maintenance Organizations (HMOs)

- Baylor, Scott & White Health Plan
- Community First Health Plans
- KelseyCare powered by Community Health Choice



### Optional Add-on Benefits

#### Dental Plans

- State of Texas Dental Choice Plan<sup>SM</sup>
- HumanaDental DHMO

#### State of Texas Vision

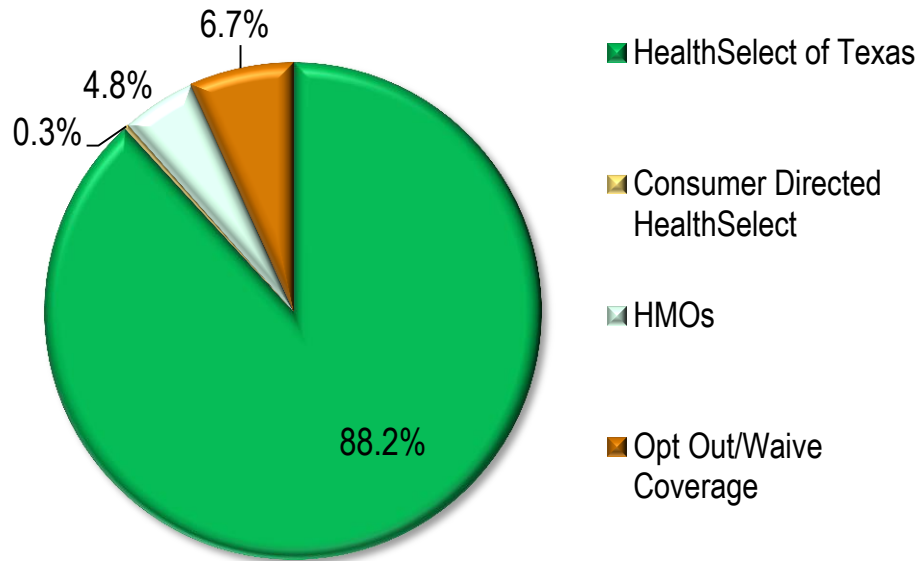
#### Optional Life, AD&D Insurance

# Medical Plan Enrollment

## Active Employees



### Active Employee Enrollment FY18



### ENROLLMENT COMPARISON BY PLAN TYPE

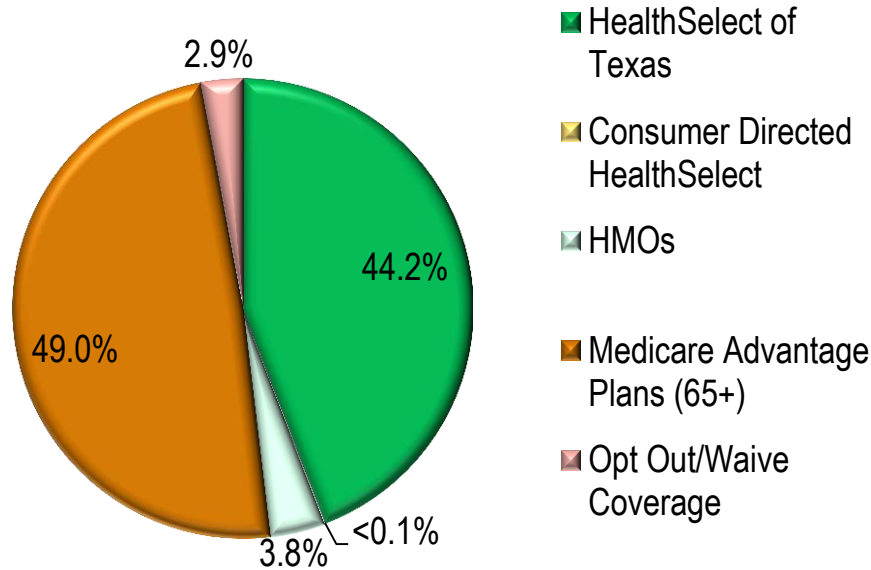
	FY17	FY18
HealthSelect of Texas	204,586	201,106
Consumer Directed HealthSelect	332	718
HMOs	10,853	10,978
Opt Out/Waive Coverage	14,882	15,308
<b>TOTAL</b>	<b>230,653</b>	<b>228,110</b>

# Medical Plan Enrollment

## Retirees



### Retiree Enrollment FY18



\*Rounding applies

Agenda item 6.2 – Board of Trustees Meeting, December 11, 2018

### ENROLLMENT COMPARISON BY PLAN TYPE

	FY17	FY18
HealthSelect of Texas	52,401	52,472
Consumer Directed HealthSelect	11	18
HMOs	4,488	4,570
Medicare Advantage Plans (65+)	54,042	58,181
Opt Out/Waive Coverage	3,266	3,480
<b>TOTAL</b>	<b>114,208</b>	<b>118,721</b>

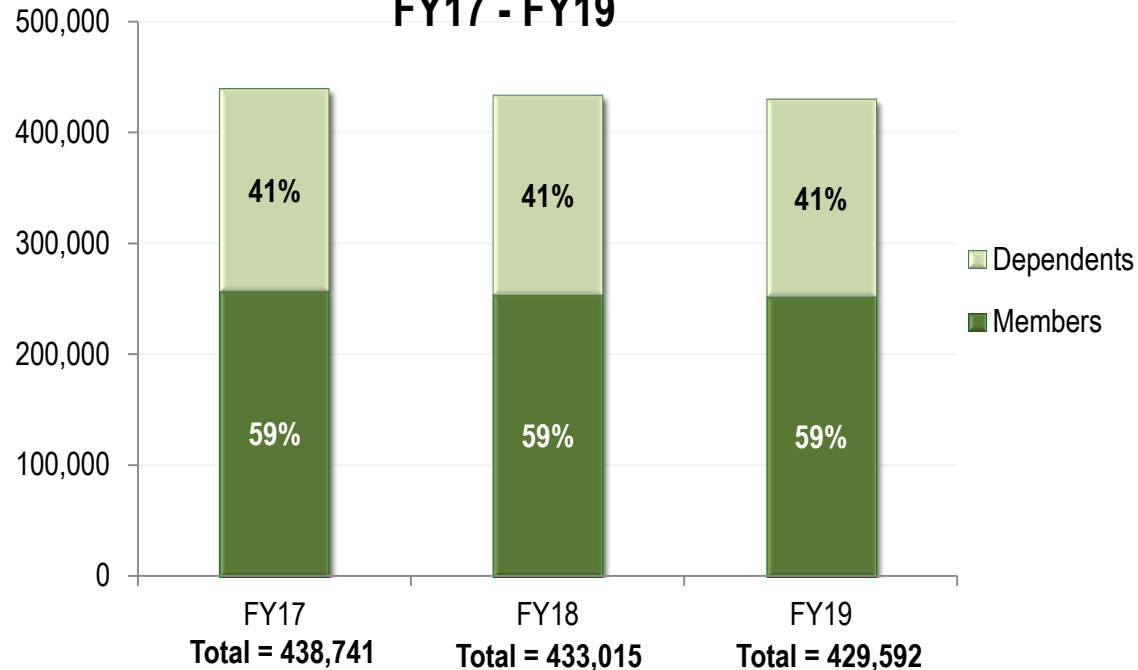
# HealthSelect of Texas

## Enrollment



- Administered by Blue Cross and Blue Shield of Texas
- Plan Year 2018 initiatives
  - Additional diabetes prevention program
  - Reduced copay to \$0 for medical virtual visits
  - Created separate Out-of-State Plan for HealthSelect<sup>SM</sup>

**HealthSelect of Texas Plan Enrollment  
FY17 - FY19**

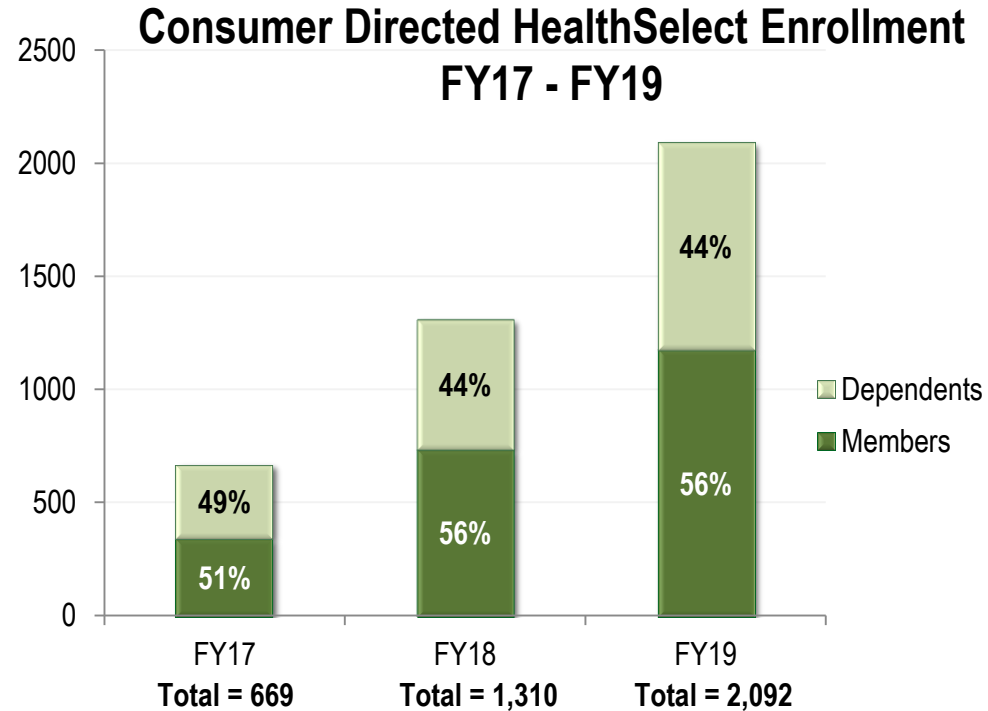


# Consumer Directed HealthSelect

## Enrollment



- Consumer Directed HealthSelect (CDHP) plan pairs:
  - High deductible health plan administered by Blue Cross and Blue Shield of Texas; and
  - Health Savings Account administered by OptumHealth Financial Services, Inc.
- Enrollment in Consumer Directed HealthSelect continues to grow.



# Consumer Directed HealthSelect

## Health Savings Accounts



ERS and Optum Bank launched a campaign to increase FY18 HSA enrollment

- Contributions to HSAs increased 77%
- Distributions from HSAs increased 130%
- HSA funds belong to the member

\*In contrast to other enrollment information measured at the beginning of the plan year, this information represents end of plan year census to illustrate account growth only. Timing differences could apply.

	Plan Year 2017*	Plan Year 2018*	Year Over Year % Change
HSA bank accounts/ Census	583/ 614	1068/ 1063	83%
Total contributions (employee)	\$776,373	\$1,374,436	77%
Contribution rate (%)	78%	46%	-41%
Median contribution	\$868	\$990	14%
Total distributions	\$346,696	\$798,942	130%
Distribution rate (%)	57%	51%	-11%
Median distribution amount	\$540	\$869	61%
Total Assets	\$637,804	\$1,598,069	151%

Agenda item 6.2 – Board of Trustees Meeting, December 11, 2018



# Contract Monitoring Overview

## *Group Benefits Plan Manager*



- A Certified Texas Contract Manager (CTCM) manages each plan
- Monitoring vendor performance is a key function to ensure
  - Contract requirements are satisfied
  - Services are performed in a timely manner
  - Program financial interests are protected
- Performance assessments (misses) are managed by members of the Group Benefits Division and the Office of Procurement and Contract Oversight (OPCO) for Executive Office review

# Contract Monitoring Overview

## *Performance Guarantee Assessments*



- A performance guarantee (PG) is connected to a business-critical service function(s) required of a vendor throughout the contract period.
- PG metrics are formulated from regulatory standards and industry best practices. Each PG is then risk-rated using risk assessment modeling and given a PG severity level.
- Severity levels identify the basis for the assessment amount in the event a PG is missed. The severity levels are:
  - Severity 1: Emergency
  - Severity 2: Critical
  - Severity 3: Moderate
  - Severity 4: Minor

# Performance Guarantee Assessments FY18



## *Blue Cross and Blue Shield of Texas, HealthSelect Plans*

- Blue Cross and Blue Shield of Texas (BCBSTX) became the new HealthSelect third-party administrator (TPA) effective September 1, 2017 (FY18) and the contract is effective through August 31, 2023.
- The TPA transition included development of the HealthSelect provider network.
- The new TPA paid approximately 5.24M medical claims in FY18.
- Performance guarantees were *met* for Emergency (severity level 1) and Critical (severity level 2) and assessments did not apply.
- Performance guarantees were *not met* for Moderate (severity level 3) and Minor (severity level 4) and assessments did apply.

# Performance Guarantee Assessments FY18

## BCBS, HealthSelect Plans



Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
3	Moderate PG	17 Moderate PGs Missed	<b>Financial Accuracy Rate of Claims</b> 7 PGs assessed (7 of 12 months)	99% rate each month	Range 90.75% - 98.54%
			<b>Pre-Service Appeal Processing</b> 1 PG assessed (1 of 12 months)	15 day turnaround 95% of the time	93.30%
			<b>Post-Service Appeal Processing</b> 1 PG assessed (1 of 12 months)	30 day turnaround 95% of the time	92.31%
			<b>Rate of Claims Processed Timely</b> 7 PGs assessed (7 of 12 months) Waived: 1 PG waived (October 2017)	98% of claims processed in 22 business days or less each month	Range 87.96% - 92.76%  97.93%

# Performance Guarantee Assessments FY18



## BCBS HealthSelect Plans (continued)

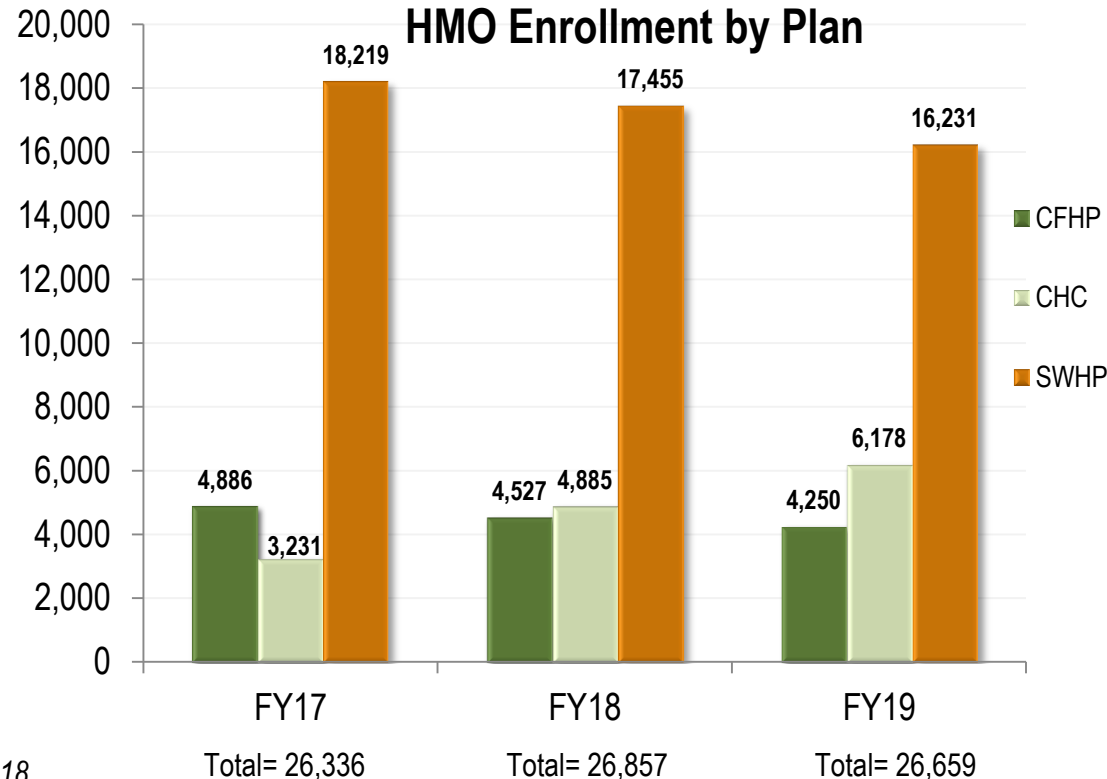
Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
4	Minor PG	90 Minor PGs Missed	<b>Communication Materials</b> 76 PGs assessed (7 of 12 months) <i>Waived: 9 minor communication material PGs waived September 2017</i>	100% of communication materials pre-approved by ERS and reflect quality and accuracy. PGs missed are measured by exception, per occurrence or incident	<100% of communication materials were approved before being mailed to participants
			<b>Reporting Requirements</b> 4 PGs assessed (4 of 12 months)	100% timely receipt required	50% - 90.91% timely
			<b>Participant Satisfaction Survey</b> 1 PG assessment pending (FY2018)	85% participation satisfaction	77.7% participant satisfaction

# Regional HMOs

## Enrollment by Plan



- The Texas Employees Group Benefits Plan (GBP) offers three fully-insured regional HMO plans.
  - Community First Health Plan (CFHP)
  - KelseyCare powered by Community Health Choice (CHC)
  - Baylor Scott & White Health plan (SWHP)
- All must provide coverage at a lower plan cost than HealthSelect



# Regional HMOs

## *HMO Performance Reporting, FY18*



- The HMO plans are required to adhere to performance standards defined in each contract. Failure to meet performance standards may result in performance assessments.
- Each HMO met performance standards and participant satisfaction rates remained positive.
- Participant Satisfaction Rates
  - KelseyCare powered by Community 92% participant satisfaction rate
  - Community First is not required to conduct a participant satisfaction survey
  - Baylor Scott and White Health Plan achieved a 90.4% satisfaction rate

# Medicare Advantage Plans

## *Medicare-eligible Retirees*



Two fully-insured plans are available for Medicare-eligible retirees. Both medical plans are paired with the HealthSelect<sup>SM</sup> MedicareRx - Employer Group Waiver Plan (EGWP) + Wrap prescription drug program.

- HealthSelect<sup>SM</sup> Medicare Advantage Plan, a preferred provider organization (MA PPO), administered by Humana Insurance Company

*Participant satisfaction rate achieved: 94%*

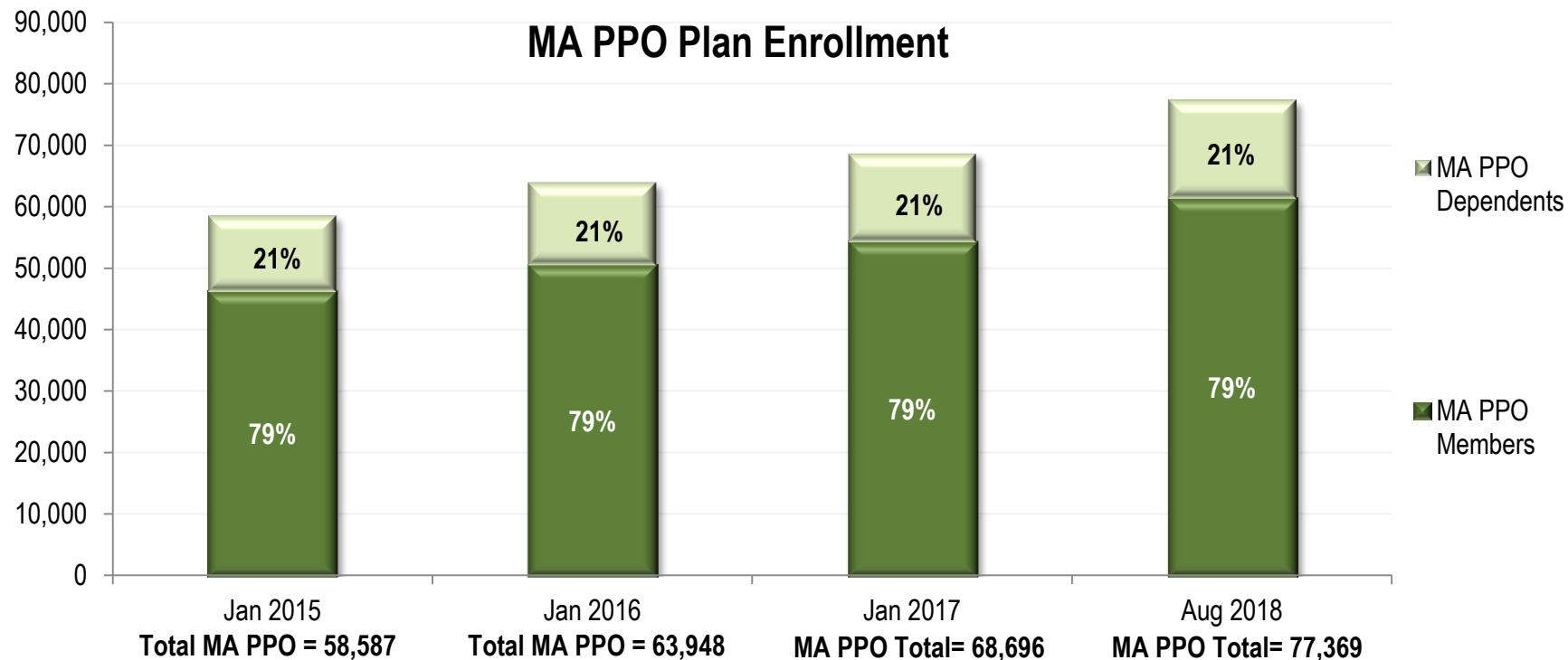
- KelseyCare Advantage Medicare Health Maintenance Organization (MA HMO)

*Participant satisfaction rate achieved: 91.6%*



# MA PPO

## Plan Enrollment



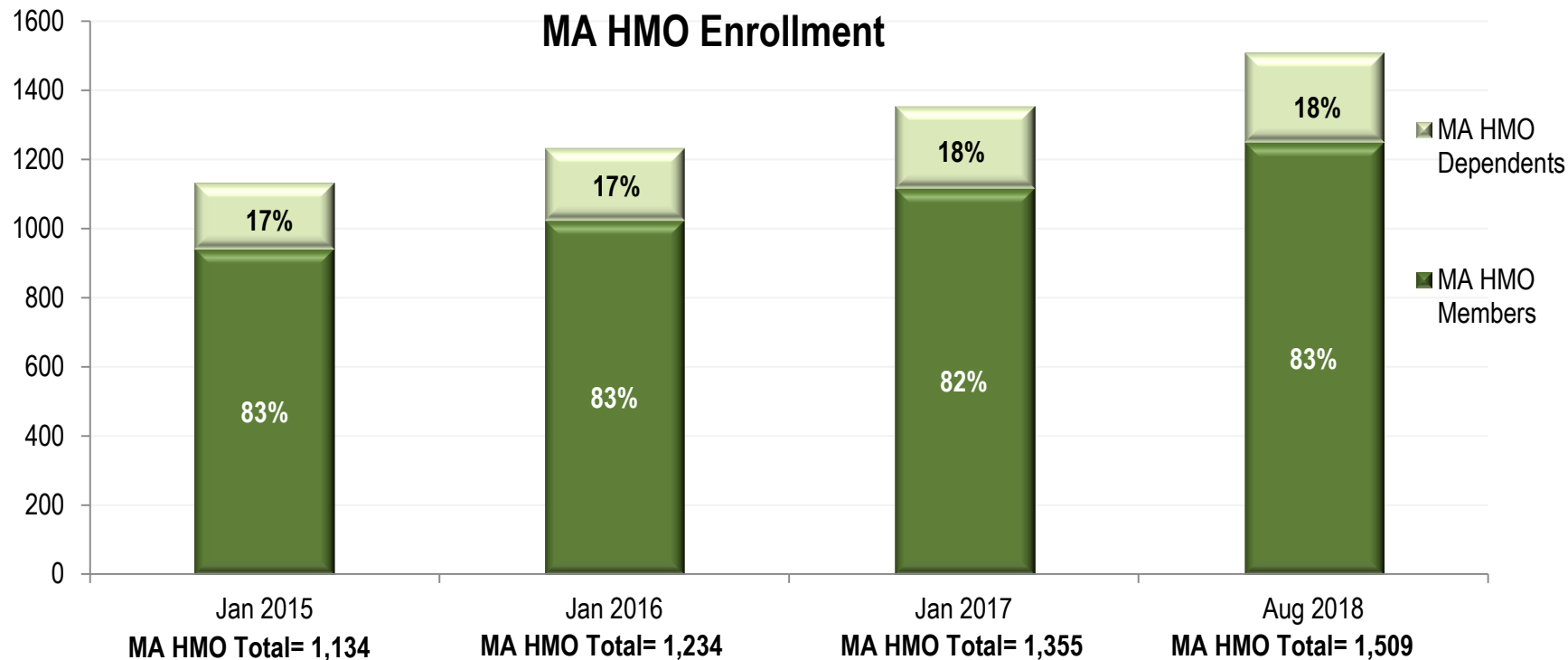
## Performance Guarantee Assessments CY17

- Performance guarantees were *met* for Emergency (severity level 1) and Critical (severity level 2) and assessments did not apply.
- Performance guarantees were *not met* for Moderate (severity level 3) and Minor (severity level 4) and assessments did apply.

Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
3	Moderate PG	1 Moderate PG Missed	<b>File Transfer Error Notification</b> PG assessed (1 of 12 months)	100% file error notification within 4 hours required	92.3% notification within 4 hours
4	Minor PG	1 Minor PG Missed	<b>Reporting Requirements</b> <i>Waived: 1 PG waived with actual rate of 88.9% (May 2017)</i>	100% timely receipt required	88.9% timely

# MA HMO

## Plan Enrollment



## Performance Guarantee Assessments CY17

- Performance guarantees were *met* for Emergency (severity level 1), Critical (severity level 2) and Moderate (severity level 3) and assessments did not apply.
- Performance guarantees were *not met* for Minor (severity level 4) and assessments did apply.

Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
4	Minor PG	1 Minor PG Missed	<b>Reporting Requirements</b> 1 PG assessed (1 of 12 months)	100% timely receipt required	<100% timely delivery

# Texas Employees Group Benefits Program

## *HealthSelect Prescription Drug Plan*



- Administered by UnitedHealthcare Services Inc. (OptumRx)
- The HealthSelect Prescription Drug Program (PDP) is a self-funded, comprehensive prescription drug program paired with:
  - HealthSelect medical plans for active employees and non-Medicare retirees
- Plan Year 2018 initiatives included:
  - *Pre-check My Script* technology
  - Preventive vaccines available at retail pharmacy
- Participant satisfaction rate:
  - FY18 HealthSelect PDP: 92%

# HealthSelect Prescription Drug Plan

## Performance Guarantee Assessments FY18



- Performance guarantees were *met* for Emergency (severity level 1) and Critical (severity level 2) and assessments did not apply.
- Performance guarantees were *not met* for Moderate (severity level 3) and Minor (severity level 4) and assessments did apply.

Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
3	Moderate PG	2 Moderate PG's Missed	<b>Timely Processing of Participant Paper Claims</b> 2 PGs assessed (2 of 12 months)	100% in 5 business days required	68% - 79% were timely
4	Minor PG	4 Minor PG's Missed	<b>Reporting Requirements</b> 4 PGs assessed (4 of 12 months)	100% timely receipt required	<100% timely delivery

# HealthSelect Medicare Rx Plan

## *Performance Guarantee Assessments CY17*



- The HealthSelect Medicare Rx plan – Employer Group Waiver Plan (EGWP) + Wrap is administered by United Healthcare Services, Inc.
- Participant satisfaction rate:
  - CY17 HealthSelect Medicare Rx: 97%

# HealthSelect Medicare Rx Plan

## Performance Guarantee Assessments CY17



- Performance guarantees were *met* for Emergency (severity level 1), Critical (severity level 2) and Moderate (severity level 3) and assessments did not apply.
- Performance guarantees were *not met* for Minor (severity level 4) and assessments did apply.

Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
4	Minor PG	8 Minor PGs Missed	<b>Reporting Requirements</b> 8 PGs assessed (8 of 12 months)	100% timely receipt required	<100% Timely Delivery



# Optional Plans

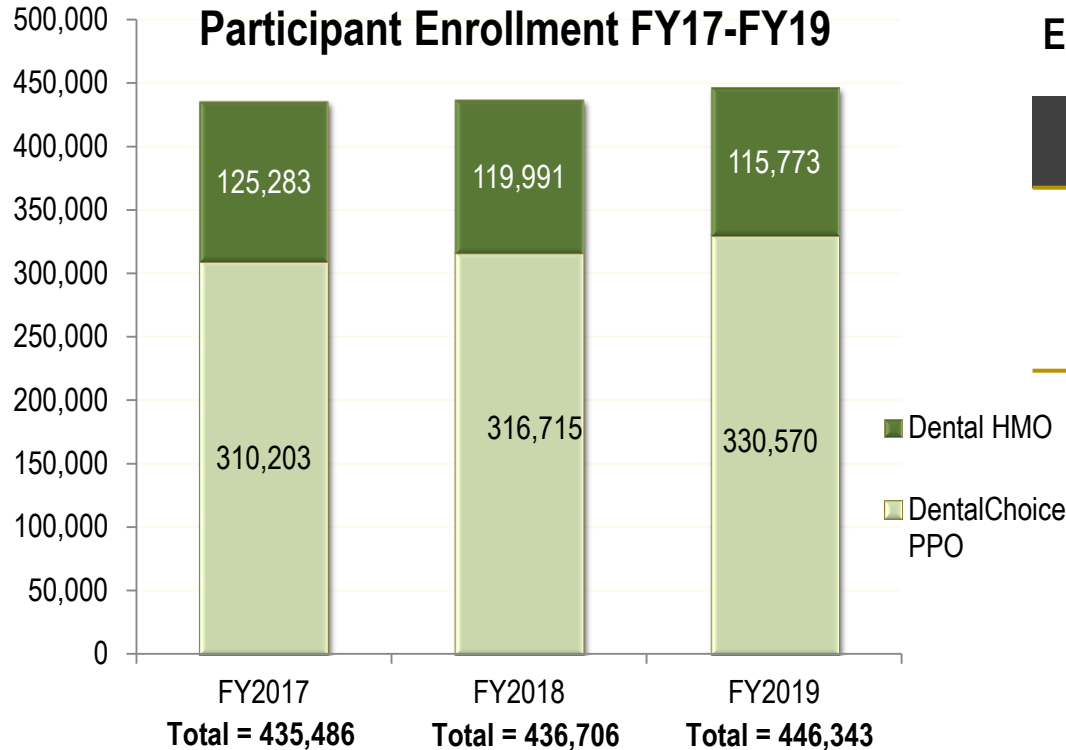
## *Dental Plans*



- Two dental insurance plans are available under the GBP:
  - Self-funded State of Texas Dental Choice Plan<sup>SM</sup>, a preferred provider organization available nationally, administered by HumanaDental Insurance Company
  - Fully insured HumanaDental DHMO available in Texas
    - Requires Primary Care Dentist
    - Administered by DentiCare, Inc., (affiliate of HumanaDental Insurance Company)
- Participants are highly satisfied with the dental plans in FY18:
  - Dental Choice Plan: 99% participant satisfaction rate
  - HumanaDental DHMO: 100% participant satisfaction rate

# Optional Plans

## Dental Plan Enrollment by Plan Type



### ENROLLMENT COMPARISON BY PLAN TYPE

	FY17	FY18	FY19
Dental Choice Plan	71%	73%	74%
HumanaDental DHMO	29%	27%	26%

# Optional Dental Plans



## *Dental Plan Performance Reporting, FY18*

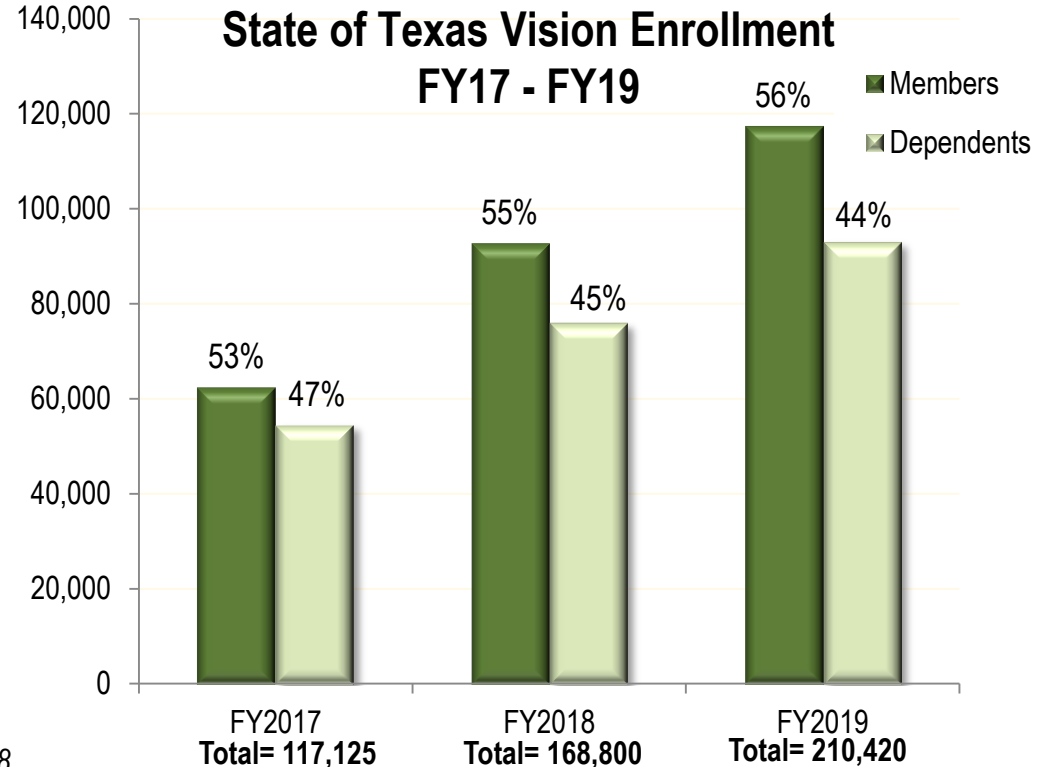
- Dental plan vendors are required to adhere to performance standards defined in each contract.
- For Fiscal Year 2018:
  - HumanaDental performance guarantees were *met* for all performance standards and assessments did not apply for the Dental Choice plan.
  - DentiCare, Inc. (an affiliate of HumanaDental) performance guarantees were met for all performance standards and assessments did not apply for HumanaDental DHMO.

# Optional Vision Plan

## State of Texas Vision



- Comprehensive vision and eyewear benefits nationwide
- Self-funded plan administered by Superior Vision
- Fiscal Year 2018 participant satisfaction rate: 93%



# State of Texas Vision



## *Performance Guarantee Assessments FY18*

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- The State of Texas Vision Plan is administered by Superior Vision Services, Inc.
- Performance guarantees were *met* for Emergency (severity level 1) and Critical (severity level 2) and assessments did not apply.
- Performance guarantees were *not met* for Moderate (severity level 3) and Minor (severity level 4) and assessments did apply.

# State of Texas Vision

## Performance Guarantee Assessments FY18



Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
3	Moderate PG	13 Moderate PGs Missed	<b>Adjudication Rate of Clean Claims</b> 10 PGs assessed (10 of 12 months)	100% adjudication rate within 15 business days	Range from 92.68% to 99.91%; one outlier month at 43.57%
			<b>Rate of Claims Processed Timely</b> 2 PGs assessed (2 of 12 months)	98% claims processed within 30 days	Range from 75.89% to 93.51%
			<i>1 PG assessment pending with actual rate of 93.08% (June 2018)</i>		
4	Minor PG	2 Minor PGs Missed	<b>Reporting Requirements</b> 1 PG assessed (1 of 12 months)	100% timely receipt required	75% Timely Delivery .
			<i>1 PG assessment pending (August 2018)</i>		67% Timely Delivery

# GBP Optional Plans

## *Optional Life and AD&D (Active Employees)*



- The Life Insurance Plans are administered by Minnesota Life Insurance Company
- Optional Term Life including AD&D
  - Additional life coverage; up to 4X annual salary
- Voluntary AD&D
  - Additional coverage; up to \$200,000
- Dependent Term Life including AD&D
  - \$5,000 coverage for each eligible dependent

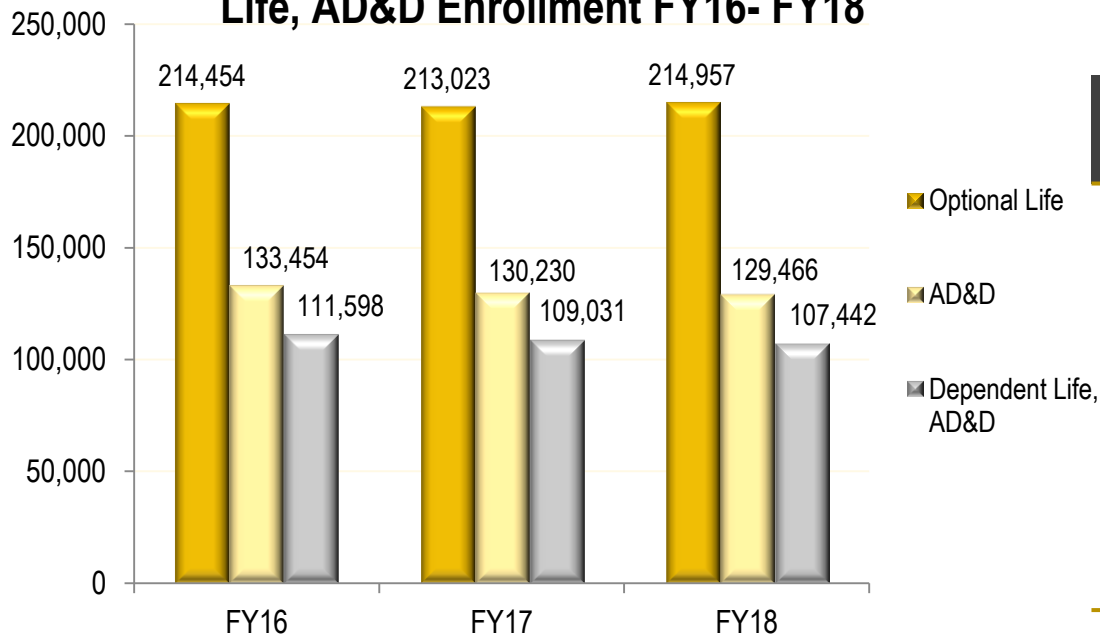
*Participant pays full cost of coverage*

# GBP Optional Plans

## Optional Life and AD&D (Active Employees)



**Life, AD&D Enrollment FY16- FY18**



**CUMULATIVE VALUE OF BENEFITS  
(IN BILLIONS)**

	FY16	FY17	FY18
<b>Optional Life</b>	\$20.34	\$20.58	\$21.02
<b>AD&amp;D</b>	\$18.50	\$18.18	\$18.10
<b>Dep. Life, AD&amp;D</b>	\$486	\$471	\$462
<b>TOTAL</b>	<b>\$39.33</b>	<b>\$39.23</b>	<b>\$39.58</b>



# Optional Term Life & AD&D

## Performance Guarantee Assessments FY18



- Performance guarantees were *met* for Emergency (severity level 1), Critical (severity level 2) and Moderate (severity level 3) and assessments did not apply.
- Performance guarantees were *not met* for Minor (severity level 4) and assessments did apply.

	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
4	Minor PG	2 Minor PGs Missed	<b>Communication Materials</b> 1 PG assessed – non-approved communication posted to Website (Sept 2017)	100% of communication materials pre-approved by ERS and reflect quality and accuracy. PGs missed are measured by exception, per occurrence or incident	<100% of communication materials were approved before being mailed to participants
			<b>Reporting Requirements</b> 1 PG assessed (1 of 12 months)	100% timely receipt required	<100% delivered timely

# Questions?



## Public Agenda Item #6.3

TexFlex, Texas Income Protection Plan and Texa\$aver Update and  
Compliance Information



December 11, 2018

Georgina Bouton, CTCM, Assistant Director of Group Benefits  
Nora Alvarado, CTCM, Voluntary Income Plans, Group Benefits

# Contract Monitoring Overview

## *Group Benefits Plan Manager*



- A Certified Texas Contract Manager (CTCM) manages each plan
- Monitoring vendor performance is a key function to ensure
  - Contract requirements are satisfied
  - Services are performed in a timely manner
  - Program financial interests are protected
- Performance assessments (misses) are managed by members of the Group Benefits Division and the Office of Procurement and Contract Oversight (OPCO) for Executive Office review

# Contract Monitoring Overview

## *Performance Guarantee Assessments*

- Performance guarantees (PGs) are connected to business-critical service functions required of a vendor throughout the contract period.
- PG metrics are formulated from regulatory standards and industry best practices. Each PG is then risk-rated using risk assessment modeling and given a PG severity level.
- Severity levels identify the basis of the assessment amount in the event of a performance miss. The levels are:
  - Severity 1: Emergency
  - Severity 2: Critical
  - Severity 3: Moderate
  - Severity 4: Minor

# Voluntary Income Plans

*Optional coverage and benefits*



## State of Texas Employees Flexible Benefit Program

TexFlex Flexible Spending Account  
(FSA)

§125 reimbursement account

- TexFlex health care FSA
- TexFlex dependent care FSA
- TexFlex limited FSA

TexFlex Commuter Spending  
Account (CSA)

§132(f) reimbursement account



## Short- and long-term disability insurance

Texas Income Protection Plan  
(TIPP)

Short-term disability coverage

TIPP

Long-term disability coverage



## Deferred compensation plans

TexaSaver 401(k) plan

- Target date funds
- Mutual funds and collective investment trusts: equities, fixed income, and cash equivalents
- Self-directed brokerage account

TexaSaver 457 plan

- Target date funds
- Mutual funds and collective investment trusts: equities, fixed income, and cash equivalents
- Self-directed brokerage account

## *Flexible Spending Account (FSA) Overview*

- TexFlex is available to active employees.
  - Voluntary benefit
  - Fully funded by enrolled participants
- FSA allows pre-tax dollars from a paycheck be set aside to be used for eligible out-of-pocket expenses.
- WageWorks, Inc. (WageWorks) is the third-party administrator.
  - Results from FY18 participant satisfaction survey are being finalized. Satisfaction results for FY17 were 83.79%, slightly below the required rate of 85%.

**TEXFLEX**

- In FY18 the state of Texas had \$44.5 million in FICA tax savings
  - \$38.6 million attributable to premium conversion

### What is premium conversion?

GBP participants are deemed to have elected to pay the required GBP plan premiums with pre-tax dollars through payroll deduction

- Defined within 34 Texas Administrative Code §81.7(b)
- Administered in accordance with Internal Revenue Code §§79 and 106



- Three types of TexFlex FSA options are administered by WageWorks:
  - Health care FSA
  - Limited FSA
  - Dependent care FSA



### Health Care Reimbursement

**Annual Maximum:** \$2,650

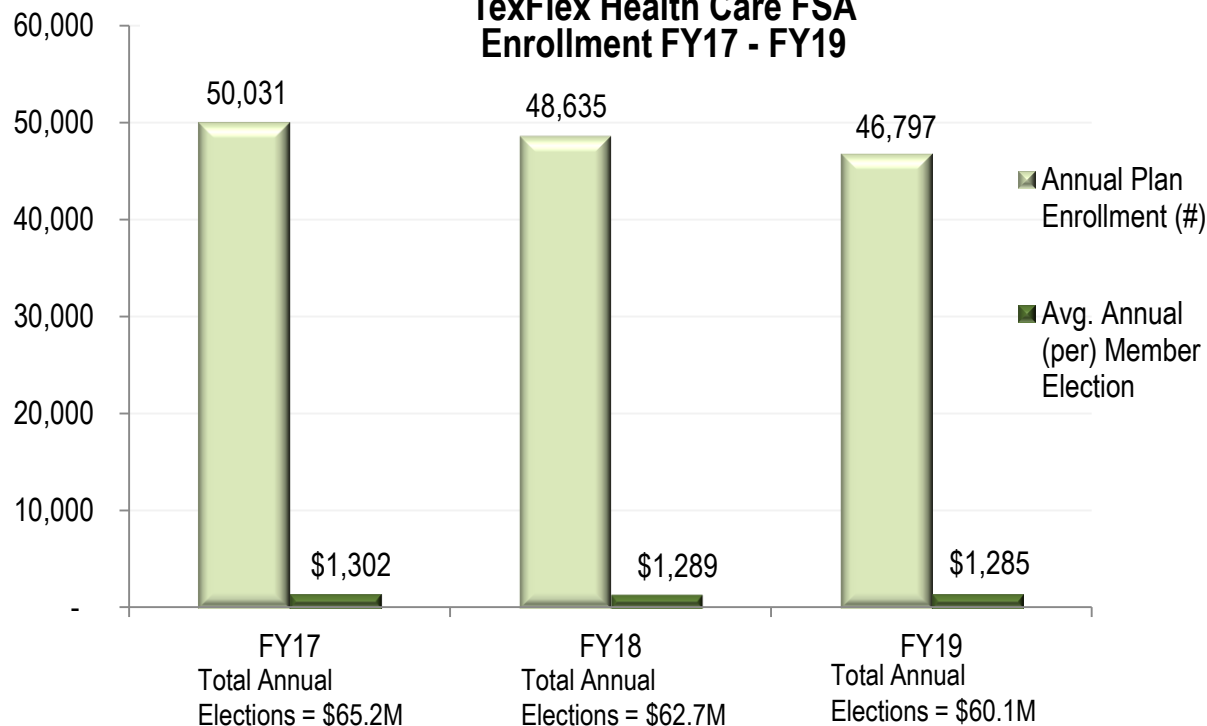
**Carryover:** up to \$500 can be carried over to next plan year

**Grace period:** No

**Run out period:** Sep 1 – Dec 31

**Subject to forfeiture:** Yes

### TexFlex Health Care FSA Enrollment FY17 - FY19



## FSA: Limited purpose health care reimbursement



### Limited Purpose Health Care Reimbursement

**Annual Maximum:** \$2,650

Available to Consumer Directed HealthSelect<sup>SM</sup> participants only

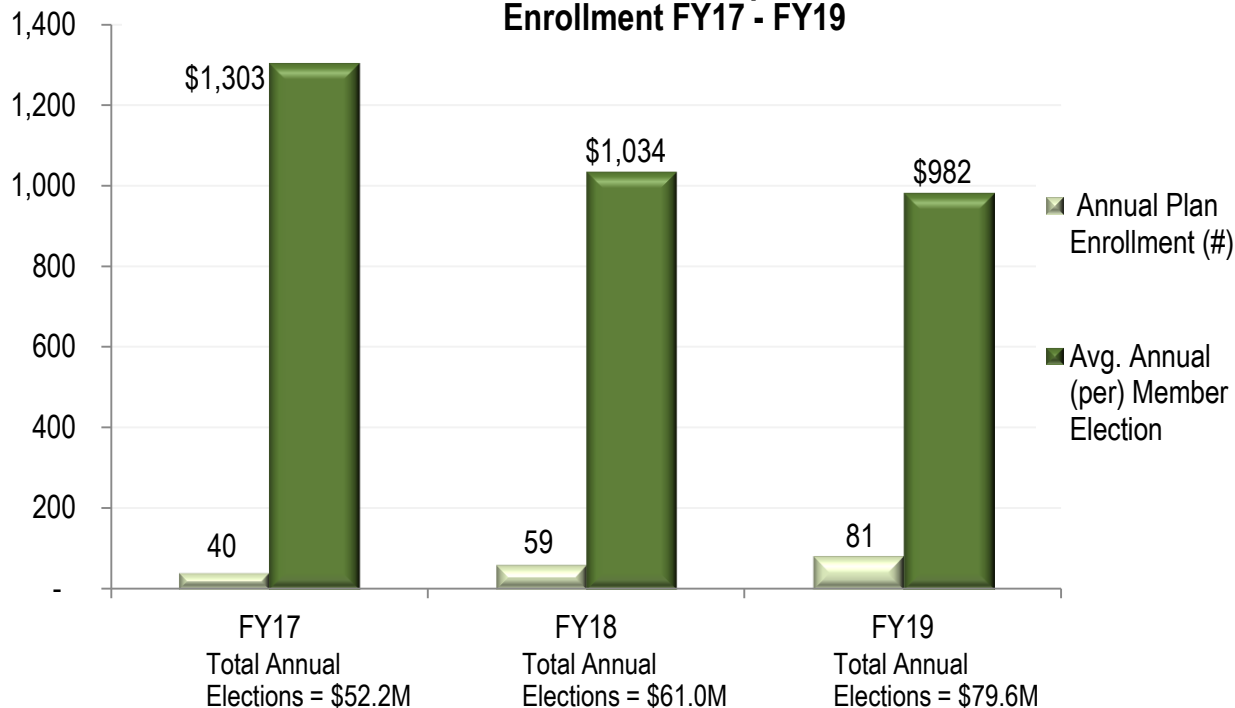
**Carryover:** up to \$500 can be carried over to next plan year

**Grace period:** No

**Run out period:** Sep 1 – Dec 31

**Subject to forfeiture:** Yes

### TexFlex Limited Purpose FSA Enrollment FY17 - FY19





### Dependent Care Reimbursement

**Annual Maximum:** \$5,000\*

**Carryover:** No

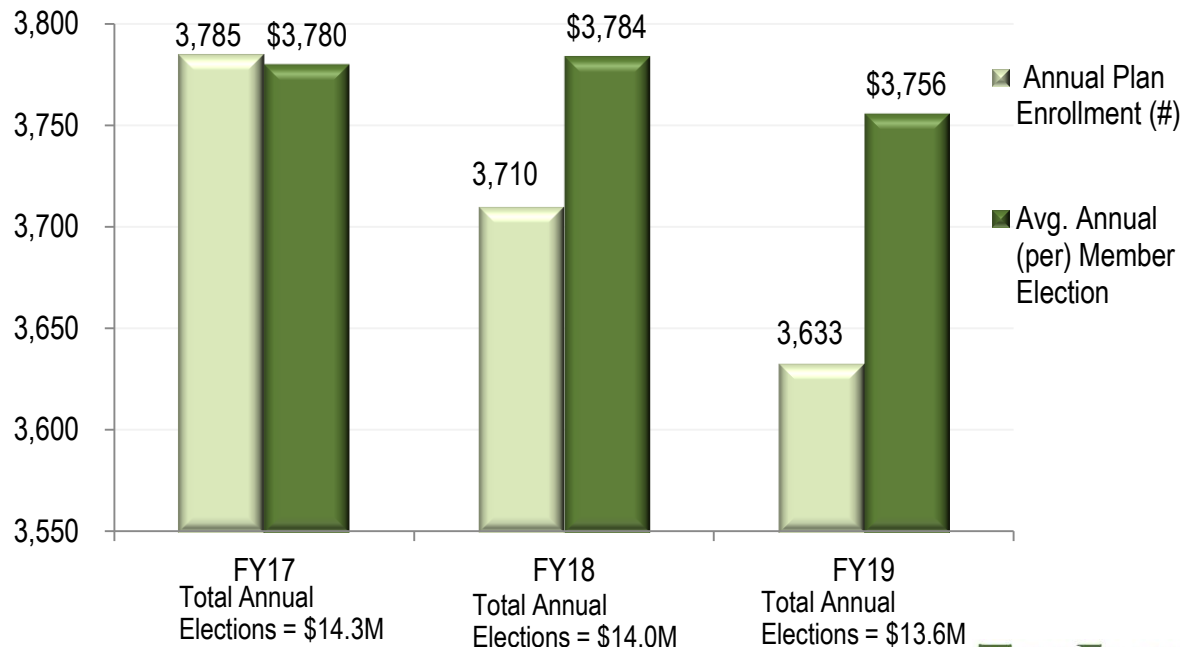
**Grace period:** Yes; extra 2 months  
15 days after Aug 31

**Run out period:** Sep 1 – Dec 31

**Subject to forfeiture:** Yes

*\* If you and your spouse each have a dependent care account, you are limited to \$5,000 between the two of you.*

### TexFlex Dependent Care FSA Enrollment FY17 - FY19



## *Commuter Spending Account (CSA) Overview*

- CSA allows pre-tax dollars to be used for qualified expenses specific for travel between an employee's residence and place of employment.
- Two types of TexFlex CSA benefit options are administered by WageWorks:
  - Qualified parking
  - Transit
- Contributions are not subject to “use or lose it” while employee is actively employed.
- Participants pay a monthly administrative fee for CSA enrollment - separate from FSA enrollment.

## CSA: *Parking reimbursement and transit*



### **Commuter Spending Account**

**Monthly Maximum:** \$260 Parking  
\$260 Transit

**Debit Card Use:** Parking – Optional  
Transit – Mandatory

**Carryover:** No

**Grace period:** No

**Run out period:** No

**Subject to forfeiture:** No, not while  
actively employed



**TEXFLEX**



### Commuter Spending Account

**Monthly Maximum: \$260 Parking**

\$260 Transit

**Debit Card Use: Parking – Optional**

Transit – Mandatory

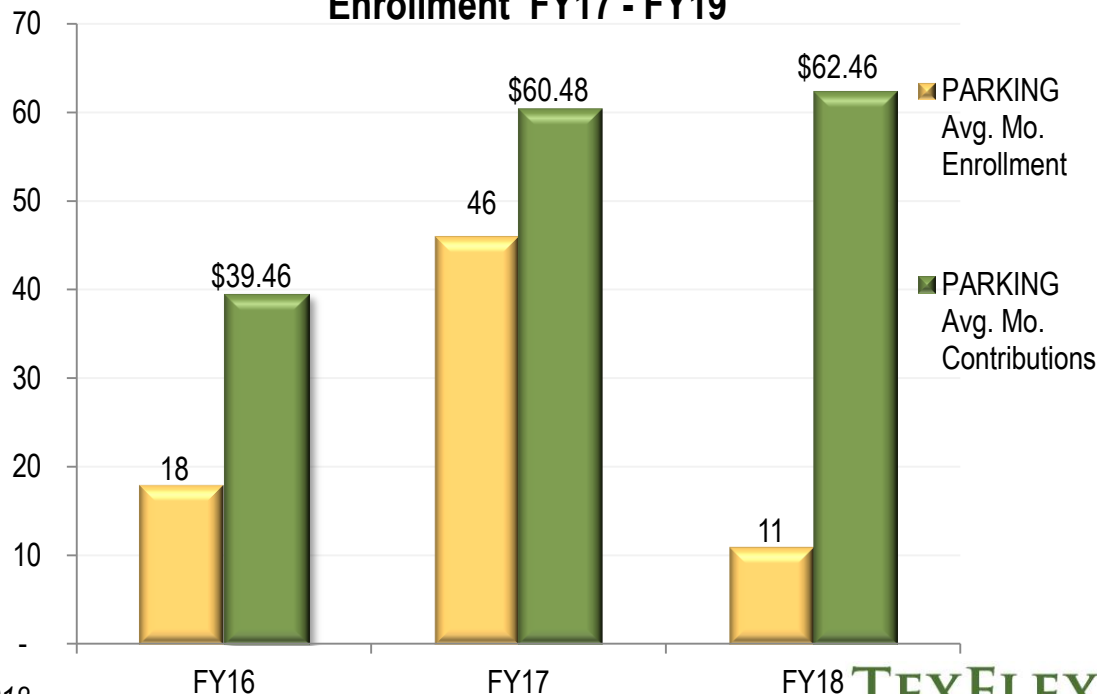
**Carryover: No**

**Grace period: No**

**Run out period: No**

**Subject to forfeiture:** No, not while  
actively employed

### TexFlex Parking CSA Enrollment FY17 - FY19





### Commuter Spending Account

**Monthly Maximum** \$260 Parking  
\$260 Transit

**Debit Card Use:** Parking – Optional  
Transit – Mandatory

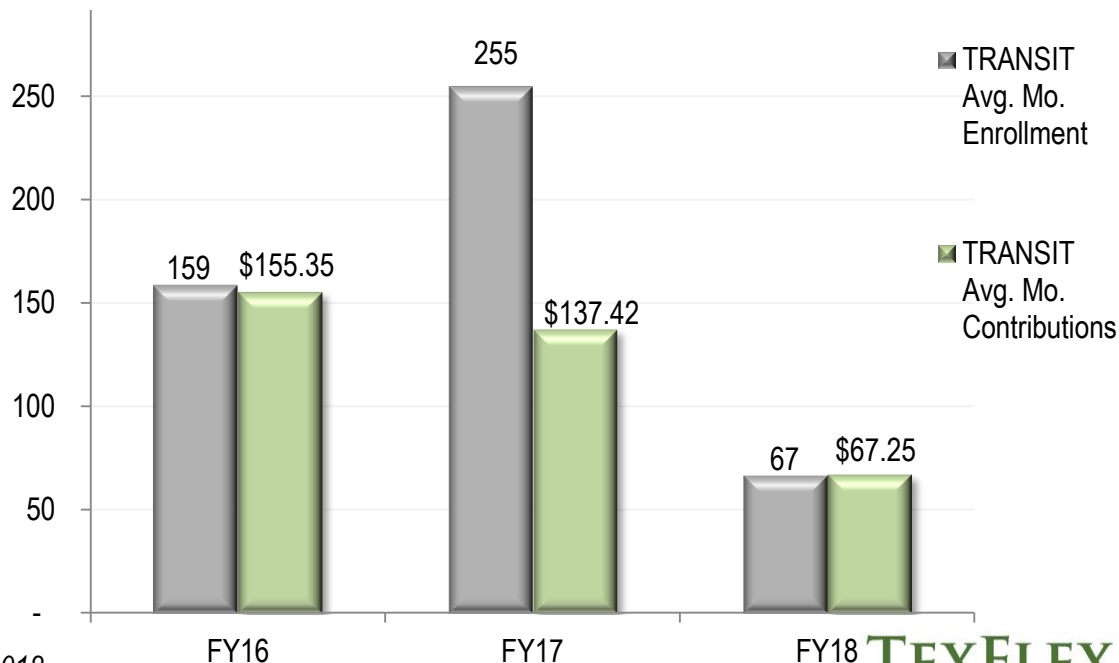
**Carryover:** No

**Grace period:** No

**Run out period:** No

**Subject to forfeiture:** No, not while  
actively employed

### TexFlex Transit CSA Enrollment FY17 - FY19





## WageWorks Performance Reporting, FY18

PG Severity	PG Category	Vendor Performance Results	PG Review Period	PG Business-Critical Service Description of Performance Issue
1	Emergency Performance Guarantees (PG)	No missed Emergency PGs	N/A	N/A
2	Critical PG	No missed Critical PGs	N/A	N/A
3	Moderate PG	4 Moderate PGs assessments	09/2017 10/2017 03/2018 03/2018	<b>Monthly Timely Processing</b> 42% processing rate in 3 days vs. 98% processing rate in 3 days, as required 86% processing rate in 3 days vs. 98% processing rate in 3 days, as required <b>Written Notice of Change*</b> Failed to notify ERS prior to changing its encryption key for FSA file exchanges Failed to notify ERS prior to changing its encryption key for CSA file exchanges <b>Quarterly Written Correspondence Rate</b> Resolution rate > 5 days, on average vs. rate ≤ 5 days, on average, as required
4	Minor PG	1 Minor PG assessment	08/2018	<b>Communication Materials*</b> 34,000 FSA debit card kit mailings included CSA information in error

\*Frequency of PG measurement is done by exception, per occurrence or incident.

Agenda item 6.3 – Board of Trustees Meeting, December 11, 2018

# Texas Income Protection Plan (TIPP)



## Overview

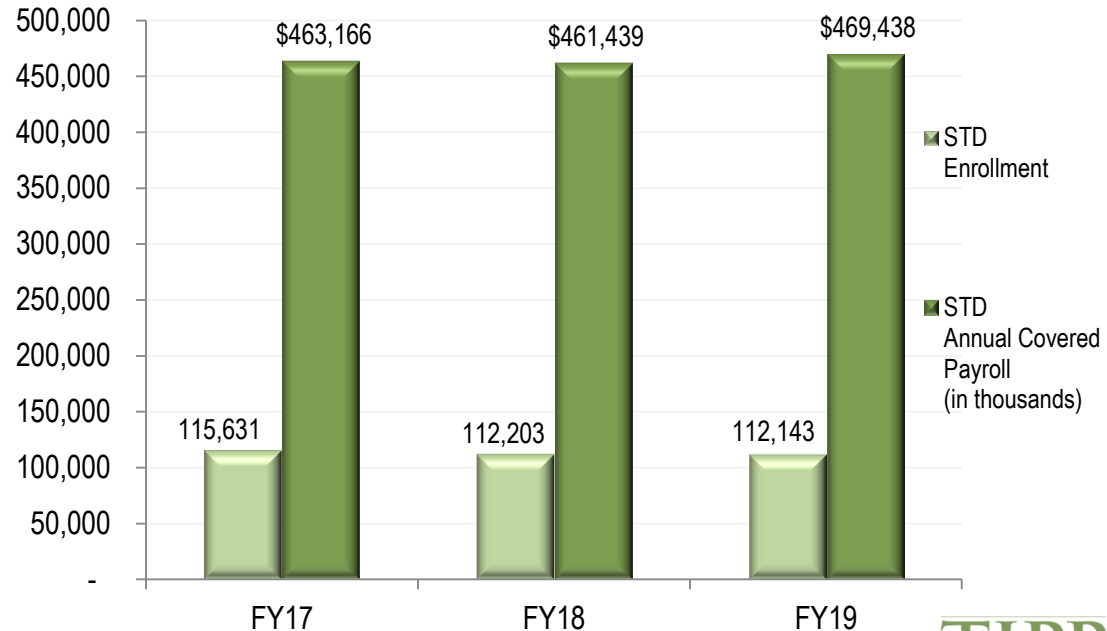
TIPP is optional insurance coverage for short-term and long-term disability.

- May increase an employee's financial security
- Provides assistance when employee is unable to work due to a illness or medical condition
- Self-insured; funded by plan participants
- Administered by Reed Group Management, LLC (Reed Group)
  - Results from FY18 participant satisfaction survey are being finalized.

## Short term disability enrollment and covered payroll

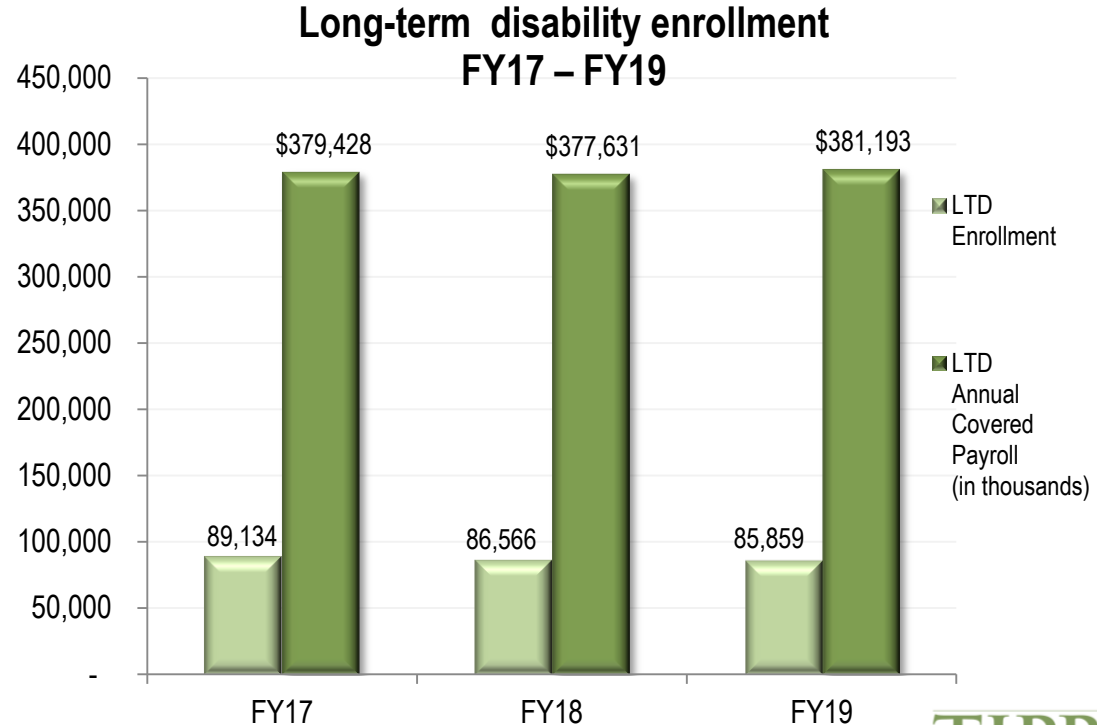
- Short-term disability monthly benefit is
  - Equal to 66% of enrolled employee's covered monthly salary or \$6,600, whichever is less
  - Coordinated with other benefit payments
  - Not less than 10% of enrollee's monthly salary when combined with all applicable resources
- Benefit period will not exceed five months.

**Short-term disability enrollment  
FY17 – FY19**



## Long term disability enrollment and covered payroll

- Long-term disability monthly benefit is
  - 60% of enrolled employee's covered monthly salary or \$6,000, whichever is less
  - Coordinated with other benefit payments
  - Not less than 10% of enrollee's monthly salary when combined with all applicable resources
- Maximum benefit period is dependent on the employee's age at the time of disability.



*Reed Group LLC Performance Reporting, FY18 \**

PG Severity	PG Category	Vendor Performance Results	PG Review Period	PG Business-Critical Service Description of Performance Issue
1	Emergency PG	No missed Emergency PGs	N/A	N/A
2	Critical PG	No missed Critical PGs	N/A	N/A
3	Moderate PG	1 Moderate PG assessment	Q1 2018	<b>Quarterly Claims Processing: Financial Accuracy Rate</b> 97.29% financial claims accuracy rate vs. 98% accuracy rate, as required
4	Minor PG	1 Minor PG assessment	Q2 2018	<b>Quarterly Interval Service Level</b> 83.88% of calls were answered within 30 seconds vs. 85% rate, as required

*\*Period begins January 1, 2018*

# Texa\$aver<sup>SM</sup> Program

## Overview



- Three-legged stool approach to retirement income planning shows retirement preparation is a shared responsibility.
- State of Texas offers a tax-deferred, supplemental retirement program which has 2 separate plans.
- Great-West Life Insurance and Annuity/Empower Retirement (Empower) is the program administrator.
  - Achieved participant satisfaction rate of 92% in CY17, exceeding the 90% required rate

# Texa\$aver Program

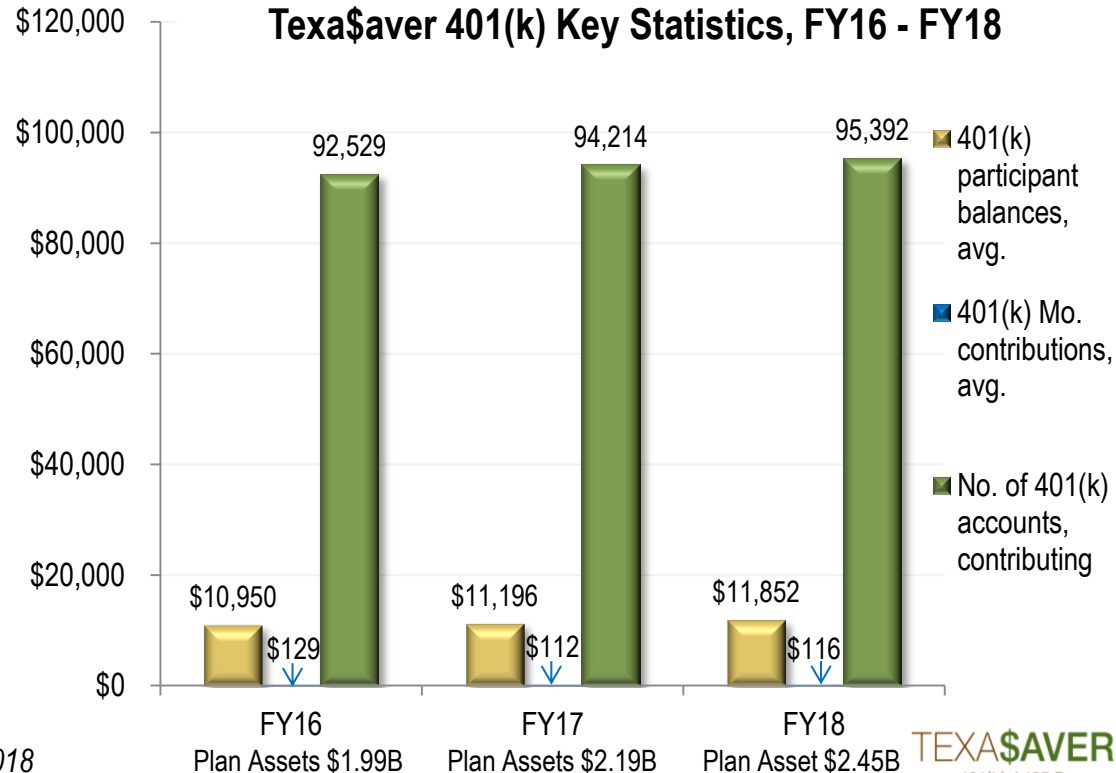
## 401(k) plan key statistics



### Texa\$aver 401(k) Plan

- Available to state agencies
- Features automatic enrollment at 1% for new hires (state agencies)
- Provides both traditional and Roth contributions
- Offers contributions as a dollar amount or percentage of salary

Agenda item 6.3 – Board of Trustees Meeting, December 11, 2018



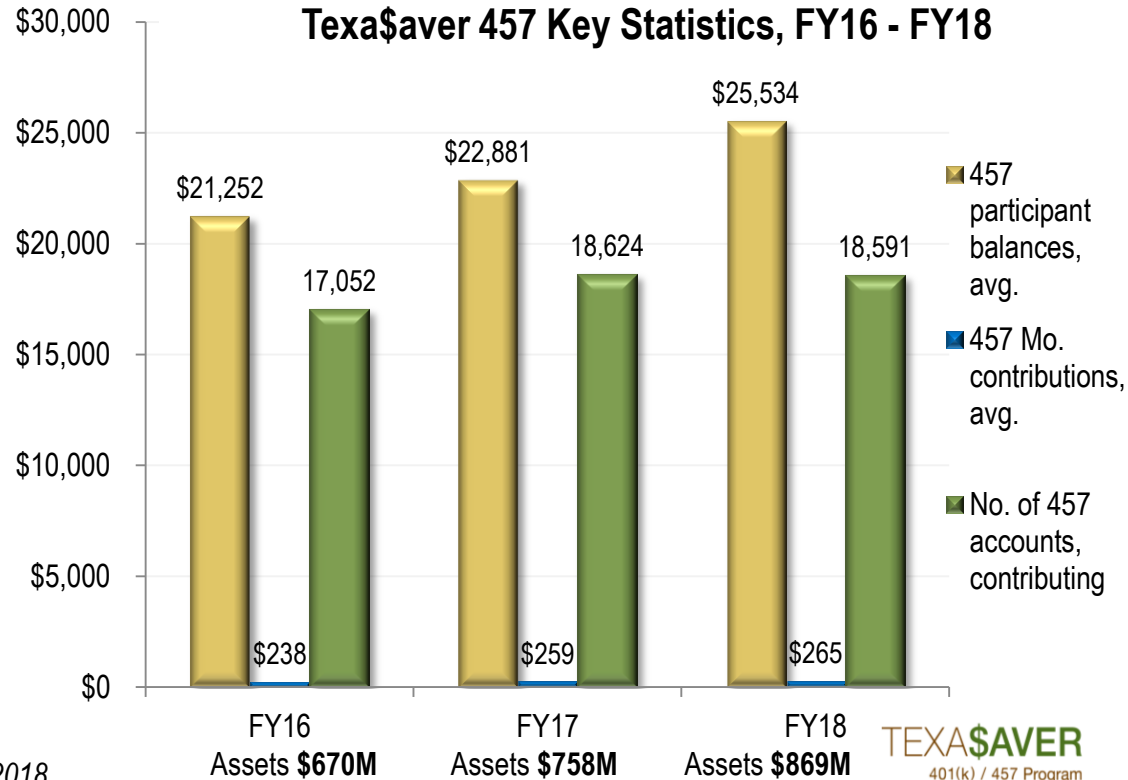
# Texa\$aver Program

## 457 plan key statistics



### Texa\$aver 457 Plan

- Available to higher education and state agencies
- Provides both traditional and Roth contributions
- Offers contributions as a dollar amount or percentage of salary





# Texa\$aver Program

## *Investment products*



- Diversified assortment of mutual funds and collective trust funds, self-directed brokerage account, and a target date fund series
- Institutionally priced funds
- All fee reimbursements are paid to participants
  - \$1.7 million in 12b-1 fee reimbursements were paid back to participants, 3<sup>rd</sup> quarter 2018
- Product Review Committee to advise on investment options, fund managers and investment advisory services

# Texa\$aver Program



## *Participant engagement campaign – Texas Two-Step*

- **Opportunity:** Population of state employees pre-date Texa\$aver automatic enrollment; 33.9% of participants automatically enrolled in Texa\$aver 401(k) plan remain at default deferral rate of 1%; population of 457 participants remain at \$20 – the lowest contribution amount.
- **Solution:** Formulate a campaign to target a subset of the “opportunity” population – almost 40,000 participants across the 401(k) and 457 plans in conjunction with summer enrollment. Campaign used clear call-to-action messaging based on the recipient’s situation: (a) consider participating in Texa\$aver for non-participating individuals, or (b) consider increasing plan contributions for those deferring minimum amounts.
- **Tactics:** Email (46%) or postcard (54%) mailings; interactive BrainShark education video; web messaging, and social media posts.

# Texa\$aver Program



## *Participant engagement campaign – Texas Two-Step*

**Results:** Campaign launched June 2018 to coincide with summer enrollment.

Results are as of August 31, 2018 and compared to August 31, 2017.

- **Increase contribution above minimum**
  - 43% emailed participants and 10% postcard participants increased contribution amounts above minimum contribution amount
  - <1 % of the targeted campaign recipients (401k and 457 combined) setup an auto contribution increase
- **Increase enrollment (non-enrolled, actively employed)**
  - 2% emailed population and 1% postcard population enrolled in Texa\$aver

# Texa\$aver Program

## Empower Retirement Performance Reporting, FY18



PG Severity	PG Category	Vendor Performance Results	PG Review Period	PG Business-Critical Service Description of Performance Issue
1	Emergency PG	No missed Emergency PGs	N/A	N/A
2	Critical PG	2 Critical PG assessed	09/2017 09/2017	<b>Notification of File Transfer Errors*</b> Empower failed to notify ERS within 4 hours of September 1, 2017 data and file transmission errors, as required. Notified ERS on September 8, 2017. <b>Resolution of File Transfer Errors*</b> Empower failed to resolve the errors within 1 business day, as required. Resolution processing was completed September 22, 2017.
3	Moderate PG	No missed Moderate PGs	N/A	N/A
4	Minor PG	1 Minor PG assessed	01/2018	<b>Reporting Requirements</b> File sent from Empower contained empty data fields which impacted 34,000 participant Statement of Retirement Benefits (SRBs)

*\*Frequency of PG measurement is done by exception, per occurrence or incident.*

*Agenda item 6.3 – Board of Trustees Meeting, December 11, 2018*

# Questions?



## Public Agenda Item #7.1

### Review and Discussion of the Texas Employees Group Benefits Program Priorities and Guidelines Policy Document



December 11, 2018

Diana Kongevick, Director of Group Benefits

Blaise Duran, ASA, MAAA, Actuarial & Reporting Services, Group Benefits

Phil Dial, FSA, Rudd and Wisdom Inc.

# Texas Employees Group Benefits Program

## *Policies and Guidelines Background*



- At the May 23, 2018 meeting of the Employees Retirement System of Texas (ERS) Board of Trustees, the Pension Funding Priorities and Guidelines were adopted.
- Shortly after, an internal workgroup was formed to adopt similar guidelines for the Texas Employees Group Benefits Program (GBP).
- The intent is to establish goals and guidelines for the GBP, ensure contemplated benefit changes comply with those goals and guidelines, and establish priorities when developing the Legislative Appropriation Request.

# GBP Policy Document

## *Purpose and Scope*



- This policy encompasses only those programs that are funded through legislative appropriation. Currently this includes GBP health plans and basic life plans for active employees and retirees.
- ERS will use the GBP Priorities and Guidelines Policy Document (GBP Policy Document) to guide operational decision making, determine appropriate funding requests and educate stakeholders about the program.
- ERS staff will report to the Board of Trustees regarding the progress of meeting goals and guidelines as described in the GBP Policy Document.



# GBP Policy Document

## Goals (Draft)



- Comply with Section 1551.002 of the Texas Insurance Code which details the purpose of the Group Benefits Act. Includes *“enable the state to attract and retain competent and able employees by providing employees and their dependents with life, accident, and health benefit coverages at least equal to those commonly provided in private industry.”*
- Maintain current health benefits and funding guidelines for active employees, early retirees and Medicare-primary retirees, subject to legislative funding.
- Comply with Section 1551.211 of the Texas Insurance Code, which requires the Board of Trustees to maintain a contingency fund equal to 60-days of expenditures for the health, accident, and life plans.

# GBP Policy Document

## *Sections*



- I. Purpose and Scope
- II. Background
- III. Scope of Board of Trustees Authority
- IV. Goals
- V. Key Terms
- VI. Guidelines
- VII. Benefit Changes
- VIII. Funding
- IX. Measuring and Monitoring Program Goals

# GBP Policy Document

## *Timeline*



- A draft outline is provided as Exhibit A and after input from the Board of Trustees, ERS will develop a draft document for review. The draft document will be presented at the March 2019 meeting of the Board of Trustees.
- Comments and edits will be incorporated and a finalized document will be presented for consideration at the May 2019 meeting of the Board of Trustees.

# Questions?



## Public Agenda Item # 8.1

*Review and Discussion of the Texas Employees Group Benefits  
Program: Actuarial Valuation of Retiree Health Insurance Benefits as  
of August 31, 2018*



December 11, 2018

Machelle Pharr, Chief Financial Director

Philip S. Dial and Mitchell L. Bilbe, Rudd and Wisdom, Inc.

# **Employees Retirement System of Texas**

## **Texas Employees Group Benefits Program (GBP)**

### **Actuarial Valuation of Other Post Employment Benefits (OPEB) Provided Under the GBP for Fiscal Year 2018**

**Board of Trustees  
December 11, 2018**

**Philip S. Dial  
Mitchell L. Bilbe**



**Rudd and Wisdom, Inc.**  
CONSULTING ACTUARIES

# FY 2018 GBP OPEB Valuation

## General Information

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- ❑ The GBP provides Other Post Employment Benefits (OPEB) to the retirees of state agencies, certain higher education institutions and other employers (see Appendix for list of other employers).
- ❑ OPEB provided through the GBP include the following benefits.
  - Health
  - Basic Life
- ❑ OPEB does not include optional benefits available to retirees under the GBP (dental, vision, and life insurance), since those benefits are fully funded by member contributions and, therefore, do not generate employer obligations.
- ❑ OPEB does not include retirement benefits.

# **FY 2018 GBP OPEB Valuation**

## **Application of GASB Reporting Standards – GASB 43/45**

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- ❑ Actuarial valuations of GBP OPEB were prepared annually from FY 2007 through FY 2017 to satisfy the requirements of Governmental Accounting Standards Board Statement No. 43 (GASB 43).
- ❑ Prior to FY 2017, the information required under GASB 43 was reported by ERS in the notes and supplementary information contained in the CAFR.
- ❑ ERS provided the information to the Texas Comptroller of Public Accounts (Comptroller).
- ❑ The Comptroller used the ERS GASB 43 information along with similar information provided by TRS to meet the reporting requirements of GASB 45 in preparation of the State's CAFR.



# **FY 2018 GBP OPEB Valuation**

## **Application of GASB Reporting Standards – GASB 43/45**

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- ❑ GASB 45 did not require the Comptroller to report OPEB expense and liability information for ERS and TRS in the financial statements in the State's CAFR. Instead, certain information regarding both plans was disclosed in the notes to the financial statements.
- ❑ GASB 45 required minimal reporting by participating employers.

# **FY 2018 GBP OPEB Valuation**

## **Application of GASB Reporting Standards – GASB 74**

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- ❑ GASB Statement No. 74 (GASB 74) replaced GASB 43 effective for FY 2017 and subsequent fiscal years.
- ❑ The FY 2018 valuation is the second OPEB valuation conducted in accordance with the requirements of GASB 74.
- ❑ GASB 74 has required significant changes in the OPEB valuation.
  - Since the GBP OPEB is funded on a pay-as-you go (PAYGO) basis, the Discount Rate assumption must be based on yields of 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.
  - As a result, the Discount Rate assumption under GASB 74 is significantly lower than the Discount Rate assumption that was used for purposes of GASB 43 valuations.
  - The note disclosures and supplementary information required under GASB 74 are more extensive; e.g., GASB 74 requires an analysis of the sensitivity of the Net OPEB Liability to  $\pm 1\%$  changes in (a) the Discount Rate assumption and (b) the healthcare trend rate assumption.

# **FY 2018 GBP OPEB Valuation**

## **Application of GASB Reporting Standards – GASB 74/75**

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- ❑ GASB Statement No. 75 (GASB 75) replaces GASB 45 effective for FY 2018 for purposes of preparation of the State's CAFR.
- ❑ GASB 75 requires significant changes in presentation of the OPEB expense and liability information.
  - Under GASB 75 the Comptroller reports OPEB expense and liability information for ERS and TRS in the financial statements in the State's CAFR.
- ❑ In addition, GASB 75 requires increased reporting by some GBP participating employers (i.e., they must report proportionate shares of Net OPEB Liability and OPEB Expense).
  - Community colleges
  - A few state agencies that prepare audited financial statements; e.g., TXDOT.

# FY 2018 GBP OPEB Valuation

## Actuarial Cost Method and Assumptions

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- ❑ Actuarial cost method
  - Entry Age actuarial funding method.
  - This is same method used since inception of the GASB OPEB reporting requirements.
  - Same method used for ERS retirement plan valuation.
  - Normal cost and 30 year amortization amounts for Actuarially Determined Contribution are determined as level percentages of pay.
- ❑ Actuarial assumptions
  - Demographic and pay-related assumptions are the same as those used in valuing the retirement plans.
  - Discount Rate assumption for a plan funded on a PAYGO basis must be based on the yields of 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.
  - Health plan benefit cost trend has been established consistent with other economic assumptions as required by GASB.

# FY 2018 GBP OPEB Valuation

## Demographic Assumptions

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- ❑ Demographic assumptions include:
  - Mortality
  - Disability
  - Termination
  - Retirement
- ❑ State agency employees and retirees:
  - Same demographic assumptions as those utilized by ERS for its FY 2018 retirement plan valuation.
  - These assumptions are the same as those used for the FY 2017 OPEB valuation.
- ❑ Higher education employees and retirees:
  - Same demographic assumptions as those utilized by TRS for its FY 2018 retirement plan valuation.
  - These assumptions, recently adopted by the TRS Trustees, are being used for the first time.

# FY 2018 GBP OPEB Valuation

## Economic Assumptions

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- Economic assumptions include:
  - Inflation
  - Payroll growth and inflationary salary increases
  - Salary increases for merit, promotion and longevity
- State agency employees and retirees:
  - Same economic assumptions as those utilized by ERS for its FY 2018 retirement plan valuation.
  - These assumptions are the same as those used for the FY 2017 OPEB valuation.
- Higher education employees and retirees:
  - Same economic assumptions as those utilized by TRS for its FY 2018 retirement plan valuation.
  - Salary increase assumptions, recently adopted by the TRS Trustees, are being used for the first time.

# **FY 2018 GBP OPEB Valuation**

## **Economic Assumptions – Discount Rate Assumption**

---

- ❑ Since OPEB benefits provided under the GBP are funded on a PAYGO basis, GASB 74 requires the Discount Rate assumption to be based on yields of 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.
- ❑ The assumed Discount Rate for the FY 2018 valuation is 3.96% based on the 8/31/18 Bond Buyer Index of general obligation bonds with 20 years to maturity with an average credit quality that is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA rating.
- ❑ Due to the requirements of GASB 74, this rate will change annually potentially causing significant volatility in OPEB liability and expense; e.g., the FY 2018 rate is higher than the 3.51% rate used for the FY 2017 valuation.

# **FY 2018 GBP OPEB Valuation**

## **Economic Assumptions – FY 2019 Per Capita Health Benefit Costs**

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- ❑ The OPEB valuation is based on projected Per Capita Health Benefit Costs for FY 2019
  - By gender
  - By age
  
- ❑ Since the addition of the Medicare Advantage PPO option effective January 1, 2012, it has been necessary to have two sets of Per Capita Health Benefit Costs:
  - HealthSelect (for participants for whom Medicare is not primary and for Medicare-primary participants who elect to remain in HealthSelect).
  - HealthSelect Medicare Advantage (for Medicare-primary participants who elect HealthSelect Medicare Advantage).



# **FY 2018 GBP OPEB Valuation**

## **Economic Assumptions – FY 2019 Per Capita Health Benefit Costs**

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- ❑ HealthSelect (medical and prescription drug)
  - The retiree population is such that a great deal of credible cost data exists.
  - Extensive historical data allows us to examine both current cost as well as evolving cost trends.
  - HealthSelect experience data through FY 2018 is used to establish current gender/age-specific costs for HealthSelect.
  
- ❑ HealthSelect Medicare Advantage
  - Per capita medical costs are based on the HealthSelect Medicare Advantage premiums applicable to the fully insured medical benefits and the associated Health Insurance Provider Fee as required under the Affordable Care Act (ACA).
  - Per capita prescription drug costs are the same as those applicable to HealthSelect participants, since HealthSelect Medicare Advantage participants have the same prescription drug coverage as HealthSelect participants.

# **FY 2018 GBP OPEB Valuation**

## **Economic Assumptions – Health Plan Benefit Cost Trend**

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- ❑ A select and ultimate trend assumption is used which begins at the levels we are using for the current biennium.
- ❑ The trends have been revised to reflect updated projections for FY 2020 – FY 2027.
- ❑ The HealthSelect trend is expected to be 7.3% in FY 2020, 7.4% in FY 2021 and then decline over the next six years to a “sustainable” ultimate level. The assumed rates of trend for FY 2020 and FY 2021 are consistent with rates used in developing the LAR for FY 2020-21.
- ❑ The ultimate level is 200 basis points in excess of the assumed rate of inflation ( $4.5\% = 2.5\% + 2.0\%$ ).

# FY 2018 GBP OPEB Valuation

## Economic Assumptions – Health Plan Benefit Cost Trend

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Fiscal Year	FY 2017 Valuation	FY 2018 Valuation
2020	8.0%	7.3%*
2021	7.5%	7.4%*
2022	7.0%	7.0%
2023	6.5%	6.5%
2024	6.0%	6.0%
2025	5.5%	5.5%
2026	5.0%	5.0%
2027 and beyond	4.5%	4.5%

\*Trend for HealthSelect only; the HealthSelect Medicare Advantage trend is expected to be higher in FY 2020 and FY 2021 as a result of the reinstatement of the ACA Health Insurance Providers Fee following its suspension for 2019.

# FY 2018 GBP OPEB Valuation

## GBP Membership

Category	Members	Covered Spouses	Covered Dependent Children	Total
Actives	231,911 <sup>1</sup>	40,144 <sup>2</sup>	124,541 <sup>2</sup>	<b>396,596<sup>2</sup></b>
Deferred Vested	11,564	0 <sup>2</sup>	0 <sup>2</sup>	<b>11,564<sup>2</sup></b>
Retirees and Nominees	122,350 <sup>3</sup>	30,562	10,499	<b>163,411</b>
<b>Total - August 31, 2018</b>	<b>365,825</b>	<b>70,706</b>	<b>135,040</b>	<b>571,571</b>
Total - August 31, 2017	359,636	70,677	135,469	565,782
Change	6,189	29	(429)	5,789

<sup>1</sup> Includes (a) return-to-work retirees and (b) employees who have not yet satisfied the waiting period.

<sup>2</sup> Rather than use current spouse/dependent child coverage information, actuarial assumptions are used to estimate the future number of spouses and dependent children that will be covered at retirement.

<sup>3</sup> Includes 4,161 retirees who receive the Opt-Out Credit in lieu of health benefits.

# FY 2018 GBP OPEB Valuation

## Results (See page II-1 of the Actuarial Valuation Report.)

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Member Class	APVPBP	NC (2018)	APVFNC (After 2018)	Total OPEB Liability
Actives	\$29,527M	\$1,206M	\$12,742M	\$15,579M
Vested Non-Contributing	1,662M	0	0	1,662M
Retirees	12,777M	0	0	12,777M
Total	\$43,966M	\$1,206M	\$12,742M	\$30,018M

### Terminology

- APVPBP = Actuarial Present Value of Projected Benefit Payments
- NC = Normal Cost
- APVFNC = Actuarial Present Value of Future Normal Costs
- Total OPEB Liability = APVPBP – NC (2018) – APVFNC (After 2018)

# FY 2018 GBP OPEB Valuation

## Results (See page II-3 of the Actuarial Valuation Report.)

Actuarially Determined Contribution (ADC)		
OPEB Measure	FY 2017	FY 2018
Normal Cost	\$1,496M	\$1,206M
Amortization of Net OPEB Liability	1,219M	1,127M
Total ADC	\$2,715M	\$2,333M

OPEB Measure	FY 2017	FY 2018
Normal Cost - % Payroll	12.7%	10.0%
Amortization - % of Payroll	10.4%	9.4%
ADC - % Payroll	23.1%	19.4%

# FY 2018 GBP OPEB Valuation

## Reconciliation with FY 2017 (See page II-5 of the Actuarial Valuation Report.)

OPEB Measure	Actual FY 2017	Expected FY 2018 Based on FY 2017 Assumptions	Change Attributable to			Actual FY 2018
			Differences in Actual vs Expected	Assumption Changes	Plan Change	
Total OPEB Liability	\$34,783M	\$36,878M	(\$936M)	(\$5,924M)	0	\$30,018M
Normal Cost	\$1,496M	\$1,548M	(\$29M)	(\$313M)	0	\$1,206M

- a) Year-to-year increases will occur if actual and expected experience are the same:
- Total OPEB Liability: Since OPEB is funded on a PAYGO basis, the excess of NC plus interest over the PAYGO amount increases the Total OPEB Liability.
  - Normal Cost (NC): NC is determined as a level percentage of payroll; therefore the dollar amount increases due to growth in active employment and/or inflationary increases in salaries.
- b) Gains/losses from differences in actual vs expected will occur to the extent that the assumptions are too pessimistic or optimistic; e.g., fewer retirements than were expected would create a gain.
- c) Assumption changes primarily reflect the reduction in Health Plan Benefit Costs resulting from the HealthSelect TPA change, negotiation of a reduced medical premium rate for HealthSelect Medicare Advantage and prescription drug rebates and EGWP subsidies that are greater than previously expected.

# FY 2018 GBP OPEB Valuation

## Impact Of Assumption Changes

Assumption Change	Approximate Increase/ (Decrease)			
	Total OPEB Liability		Normal Cost	
	Amount	Percentage*	Amount	Percentage*
Discount Rate	(\$2.2 Billion)	(6.1%)	(\$166 Million)	(10.9%)
Claims and Trend	(\$3.8 Billion)	(10.5%)	(\$139 Million)	(9.1%)
ERS Demographic	\$0.0 Billion	0.0%	(\$1 Million)	(0.1%)
TRS Demographic	\$0.1 Billion	0.1%	(\$7 Million)	(0.5%)
Total	(\$5.9 Billion)	(16.5%)	(\$313 Million)	(20.6%)

\*As a percentage of corresponding amount prior to assumption changes.



# FY 2018 GBP OPEB Valuation

## Sensitivity of Net OPEB Liability to Discount Rate and Trend

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Sensitivity to Changes in Discount Rate			
	1% Decrease (2.96%)	Current (3.96%)	1% Increase (4.96%)
Net OPEB Liability	\$35.2 Billion	\$29.6 Billion	\$25.4 Billion

Sensitivity to Changes in Trend			
	1% Decrease	Current	1% Increase
Net OPEB Liability	\$25.1 Billion	\$29.6 Billion	\$35.5 Billion

# Appendix

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- ❑ See Section X of the Actuarial Valuation Report for the definitions of certain terms used in this presentation.
- ❑ Other employers include the following:
  - Community Supervision and Corrections Departments
  - Texas Cooperative Inspection Program
  - Texas County and District Retirement System
  - Texas Municipal Retirement System
  - Texas Turnpike Authority
  - University of Texas Medical Branch at Galveston
  - University of Texas Mental Sciences Institute
  - Windham School District

## Public Agenda Item # 9.1

### *Discussion and Consideration of ERS Building – (Action)*



December 11, 2018

Porter Wilson, Executive Director

Wendy McAdams, Director of Operations Support

Rick Johnson, Vice President & Central Texas Area Manager with Broaddus & Associates

Peter Jansen, Vice President, CBRE

# Space Planning

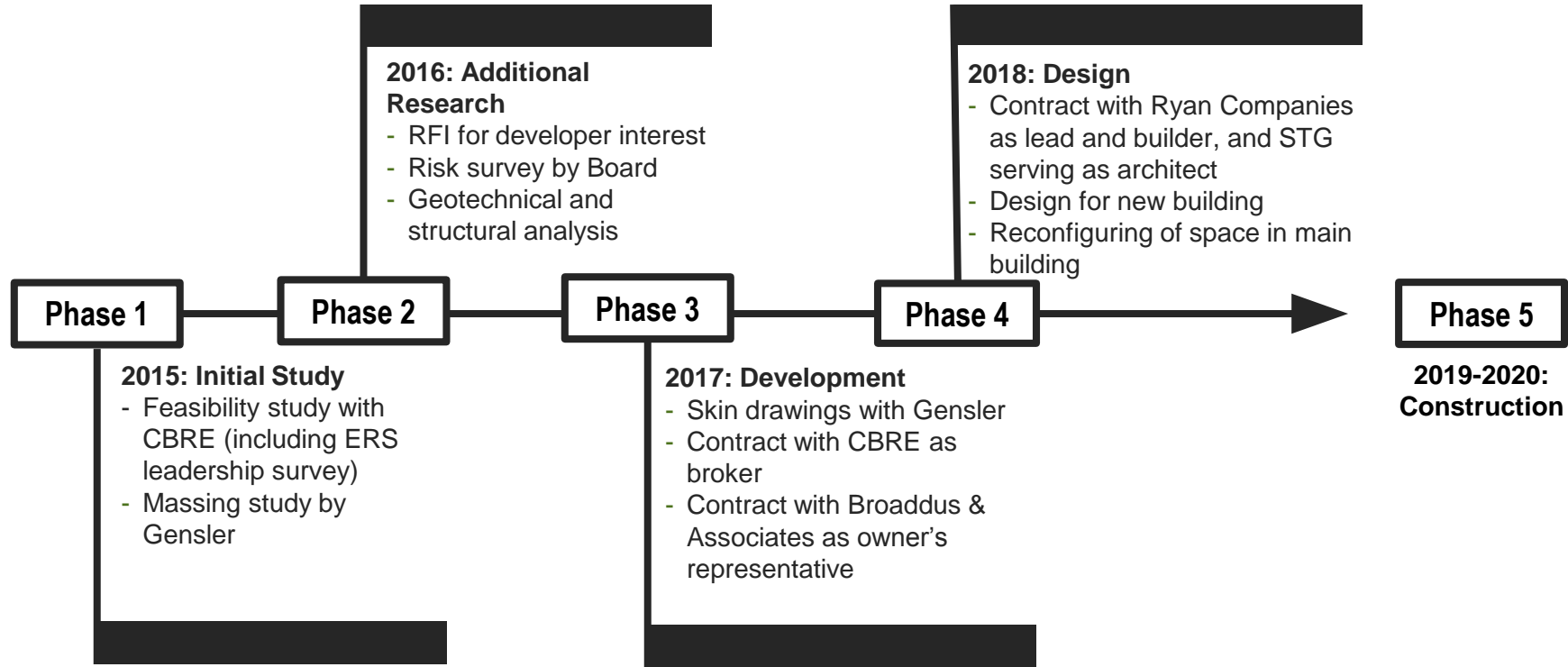
## *Background*



- ERS staff explored options to accommodate steady growth in personnel and make recommendations to the ERS Board.
  - Multi-year, phased project
  - Ongoing engagement with space-planning consultants
- The proposed solution, a new building, has two major advantages.
  - Fulfillment of ERS' space needs
  - Income generation to pay for itself and earn returns for the Trust by leasing excess capacity to third-party tenants

# Space Planning

*Phased, multi-year process*



# Design-build Process

## *Design phases*



- **Concept design phase** -- The “Edge” scheme was selected, approved and further developed.
- **Schematic design phase** -- The 100% schematic design drawings were approved at the end of July. We made several key decisions, including:
  - an offset core design in which elevators, stairwells, restrooms and other utilities are located on one side of the building;
  - one level of underground parking plus three levels of above-ground parking;
  - the existing loading dock serving both the existing and new buildings; and
  - space for ERS in the new building, with sky-bridge connection to the main building.
- **Design development phase** – The overall design was approved by ERS staff in November.
- **Construction document phase** – The design-build team developed a guaranteed maximum price (GMP) for the Board to consider at this meeting, while continuing to work on the construction documents.

# Marketing to Potential Renters

## CBRE's *update*



- Launch – August 30, 2018 through mid-September
  - Press release distributed regionally and nationally
  - Online presence
  - E-blast to brokers, tenants and investors
- Tenant outreach – current (eight to 10 weeks)
  - ~35 targets of 10,000+ square feet
  - Direct outreach to accretive retail
  - “In theme”
  - Targets include legal, tech, hospitality and coworking



Questions?  
**Action Item**





## Public Agenda Item # 9.2

*Executive Session – In accordance with section 551.072, Texas Government Code, the ERS Board of Trustees will meet in executive session to deliberate the purchase, exchange, lease, or value of Real property and the ERS building. Thereafter, the Board may consider appropriate action in open session.*



December 11, 2018

# Public Agenda Item # 10.1

## *Executive Director Agency Update*



December 11, 2018

Porter Wilson, Executive Director

# Legislative Appropriations Request

*Fiscal Years 2020-21*



- The LAR is based on the most recent actuarial funding valuations at the time.
- The 2020-21 LAR was based on the August 31, 2017 actuarial valuation.
- ERS will update its appropriation request to reflect:
  - Updated LBB payroll assumptions for 2020-21 included in HB/SB1.
  - August 31, 2018 actuarial valuation
- A limited update of the funding valuation will be performed using February, 2019 data in March 2019.

# Legislative Appropriations Request

## *Retirement Base Request – Remains Unchanged*



Strategy	2020	2021	2020-21 Biennium
ERS Retirement @ 9.5% state contribution level	\$648M	\$648M	\$1.3B
LECOS Retirement Program @ 0.5% state contribution level	\$8.5M	\$8.5M	\$17M
JRS II @ 15.663% state contribution level	\$12.5M	\$12.4M	\$25M
JRS I	\$23.3M	\$23.3M	\$46.6M
Public Safety Benefits	\$13.8M	\$13.8M	\$27.6M
Retiree Death Benefits	\$12.3M	\$12.3M	\$24.6M

The additional 0.5% paid by state agencies for the ERS Retirement Program is included in the individual agencies legislative appropriation request

# Legislative Appropriations Request

## *Retirement Exceptional Items Request*



Below is a comparison of the additional funding request included in the LAR and updated to reflect the ASC as of the end of August 31, 2018

	Actuarial Funding Valuation as of 8/31/2017			Actuarial Funding Valuation as of 8/31/2018		
Strategy	ASC	2020-21 GR/GRD	2020-21 All Funds	ASC	2020-21 GR/GRD	2020-21 All Funds
ERS Retirement	23.33%	\$395.6M	\$531.0M	23.07%	\$368.6M	\$495.0M
LECOS Retirement	3.06%	\$75.4M	\$75.6M			
JRS II	23.98%	\$705K	\$1.4M			

# Legislative Appropriations Request

## *Health Benefit Program - Unchanged*



### 2020-21 Request at 2019 Projected Level

- Savings achieved during the current biennia through a variety of methods:
  - Medicare Advantage PPO and HMO
  - Renegotiated contracts for Pharmacy Benefit Manager and HealthSelect Third Party Administrator
  - Value Based Initiatives

Strategy	2020 All Funds	2021 All Funds	2020-21 Biennium All Funds
Group Benefits Program	\$1.96B	\$1.96B	\$3.92B
Insurance Contributions for Local CSCD employees	\$68.8M	\$68.8M	\$137.6M

# Legislative Update – Interim Committee Hearings

*Senate Finance - September 2018*



- Participated in panel with HHSC, TDCJ and TRS
- Agencies were able to provide information on how each program currently utilizes data to find ways to enhance services and better manage costs
- Each agency made a commitment to continue ongoing meetings and discussions to share best practices and innovative ideas for better managing state health care costs
- Senate Finance asked for general update on the cost trends and appropriations request related to health care programs at each agency

# Legislative Update – Interim Committee Hearings



## *House Pensions Committee – October 2018*

- Testified at the Houston hearing regarding ERS's pensions funding status and Board of Trustees investment governance best practices.
- Invited testimony was also provided by other statewide and local pension systems.
- Provided status update for all three ERS retirement funds, unfunded liabilities and the need for additional funds to return to actuarial soundness.



# Benefits Administration Services (BAS) Project



## Background:

- ERS OnLine (Oracle/Peoplesoft) is the current system used for managing the eligibility, enrollment and all related processing for all GBP programs
- ERS OnLine is used by state and higher education employees and retirees, state and higher education benefit coordinators, and internal staff at ERS.
- Most are familiar with this system when they enroll in benefits as a new hire or make enrollment changes during our annual enrollment periods.

# ERS Online (Current System)



## ERS OnLine Benefits

Sign In

Username

[Forgot Username?](#)

Password

[Forgot Password?](#)

**SIGN IN**

Not Registered?

Registering provides access to your personal account information. It also allows you to manage your benefits administered by ERS.

To register:

- Click register below
- Follow the step-by-step instructions to create a username and password

**REGISTER**

## Member Home Page



### My Personal Information

[Name](#)

[Addresses and Eligibility Basis](#)

[Email Address and Password](#)

[Phone Numbers](#)



### My Beneficiaries

[Beneficiary Summary](#)



### My Retirement Information

[Account Balance Summary](#)

[Retirement Estimate](#)

[Statement of Retirement Benefits](#)

[Withdraw My Retirement Account](#)



### My Insurance Information

[Family Status Change](#)

[Post-Hire Change](#)

[Election Update](#)

[Benefits Enrollment](#)

[Benefits Summary](#)

[Tobacco User Certification](#)



### Health Savings Account

[Health Savings Account](#)



### Commuter Spending Account

[Commuter Spending Account](#)



### Power of Attorney Information

[Power of Attorney](#)

# Need for Benefits Administration Services (BAS) Project



- The current system was implemented in September of 2001 and last upgraded in 2009.
- Outdated technology only has sustaining support from the development company, which provides no code fixes or enhancements.
- The current system is highly customized; therefore system changes are difficult, time consuming, and resource intensive from the business and technical perspectives. This contributes to many manual work processes.
- Keeping up with rapidly changing benefits and state and federal requirements has become more challenging as the demand for flexibility of services continues to increase.
- ACA standardized rules, which allows us to take advantage of products and services already being utilized in the marketplace.

# Goals of Benefits Administration Services (BAS) Project



- Maintain high customer service while improving the member experience
- Simplify processes
- Serve our member in ways they want to receive service, such as mobile technology, and ADA accessibility
- Improve information quality and make self-service processes easier to navigate and use
- Reduce or eliminate manual processes
- Provide employers with more responsive and proactive tools, processes, and information

# Plan Year 2019 Fall Enrollment

*Retirees enrolled in Medicare and their families*



**ERS mailed  
91,031 PBES  
packets**



**5,491 changes  
made to  
member and  
dependent  
coverages**



**ERS and ACT  
Received  
2798 calls:**

- 420 by ERS
- 2378 by ACT.



**30 people  
visited ERS in  
person.**

# Executive Director's Report

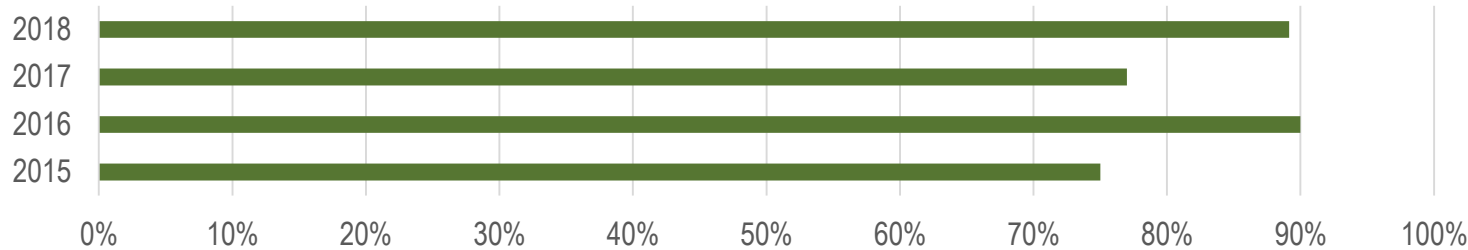
## State Employee Charitable Campaign 2018



- ERS participated in a multi-agency fair at the Travis building.
- Surpassed 2017 participation – 329 employees (89.16%) with several divisions reaching 100% participation.
- ERS Employees contributed over \$53,000 this year.



ERS Participation Rate



# Questions?



## Public Agenda Item # 11.1

*Set 2019 Meeting Dates for the Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee, the Meeting of the Board of Trustees, and the Meeting of the Audit Committee*



December 11, 2018



# 2019 Meeting Dates



## **Proposed 2019 Meeting Dates**

Wednesday, March 6, 2019

Wednesday, May 22, 2019

Wednesday, August 21, 2019

2 Day Workshop:

Tuesday – Wednesday, December 10-11, 2019

# Questions?



## Public Agenda Item # 12.1

*Recess of the Board of Trustees –*

*The Board of Trustees will reconvene as a committee of the whole on Wednesday, December 12, 2018 at 8:00 a.m. with the Investment Advisory Committee to take up the remaining agenda items.*

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December 11, 2018